

ORANGE WATER AND SEWER AUTHORITY

(A component unit of the Town of  
Chapel Hill, North Carolina)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the fiscal years ended June 30, 2009 and 2008

**Prepared by:**

**Finance Department of Orange Water and Sewer Authority**

ORANGE WATER AND SEWER AUTHORITY  
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# ORANGE WATER AND SEWER AUTHORITY

*A public, non-profit agency providing water, sewer and reclaimed water services  
to the Carrboro-Chapel Hill community.*

September 24, 2009

## **To the OWASA Board of Directors, Bondholders, and Customers:**

We are pleased to present our Comprehensive Annual Financial Report for the Fiscal Year from July 1, 2008 through June 30, 2009 (FY 2009). This report conforms to the reporting and accounting standards of the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board, and the Government Finance Officers Association's (GFOA's) *Governmental Accounting, Auditing and Financial Reporting* document. Orange Water and Sewer Authority (OWASA) is responsible for the accuracy, completeness and fairness of the information presented, including all disclosures.

## HIGHLIGHTS

In FY 2009, OWASA served the Carrboro-Chapel Hill community in full compliance with Federal and State standards for drinking water quality and treated wastewater quality.

In April, 2009, we began the operation of a new Reclaimed Water (RCW) System, which provides highly treated wastewater for allowable non-drinking uses. Construction and operation of the RCW system is fully funded by the University of North Carolina at Chapel Hill (UNC), and use of reclaimed water in its chiller plants will initially reduce the University's demand for drinking water by about 660,000 gallons per day. Expanded use of reclaimed water will further reduce our risks in future droughts and other shortages, and help delay the need for future water system capacity expansions.

Drinking water demand in FY 2009 was significantly below past trends due to continuing conservation by all categories of customers. In the exceptionally severe drought of 2007-08, our customers improved their water conservation practices and made conservation investments such as replacing inefficient toilets. We believe that our increasing block and seasonal water conservation rates are also a significant factor in encouraging conservation.

In the cost reduction program that we began in the fall of 2007, we have to date frozen or eliminated 18 positions (12% of our previously authorized workforce of 150 positions), deferred several capital investments and made reductions in non-essential operations such as lake recreation. We believe these cost reductions and deferrals have been made without significant reduction in system reliability or the services we provide. Despite the reduction in customer demand its impact on revenues in light of significant changes in fiscal and economic conditions, net assets increased by about nine percent during FY 2009. Please refer to the Management's Discussion and Analysis and the audited financial statements for greater information on OWASA's financial performance during FY 2009.

In March, 2009, the OWASA Board of Directors adopted a new Financial Management Policy in which are identified numerous targets for sound fiscal performance and financial position.

## SCOPE AND ORGANIZATION OF THIS REPORT

- The Introductory Section (unaudited) contains this letter of transmittal and information about OWASA's organizational structure, principal officers, major initiatives, accomplishments, and future projects.
- The Financial Section includes the independent auditor's report, OWASA management's discussion and analysis of the year ended the financial statements, and supplementary schedules. The financial statements can be issued separately for securities offerings or other purposes.
- The Statistical Section (unaudited) presents fiscal and other data to provide a more complete understanding of OWASA, the community we serve and the local economy.
- The Compliance Section presents the independent auditor's report on compliance with various internal control and other requirements related to certain forms of financial assistance.

As a single-purpose government, OWASA's financial reporting entity is a sole enterprise fund through which is captured and disclosed the inflow and outflow of total economic resources under the full accrual method of accounting. For financial reporting purposes under the Governmental Accounting Standards Board Statement 14, OWASA is considered a component of the Town of Chapel Hill because the Town Council appoints a majority of the OWASA Board Members and may remove them without cause. The Comprehensive Annual Financial Report (CAFR) of the Town of Chapel Hill therefore includes OWASA's financial data and OWASA's CAFR includes statistical data about the Town.

## BACKGROUND

A special purpose local government organized under State law, OWASA is a public non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community, which is in southeast Orange County and a small part of southwest Durham County. We serve about 80,000 people.

### ***Creation of OWASA***

Before OWASA was established, the University of North Carolina at Chapel Hill and the Towns of Chapel Hill and Carrboro provided public water and sewer services to the Carrboro-Chapel Hill community.

Following recommendations of a Utilities Study Commission created in 1971, on August 9, 1976, the State approved conveyance of the University's water and wastewater utilities to OWASA in accord with *Agreements of Sale and Purchase* among the University, the Towns and OWASA. The Towns of Carrboro and Chapel Hill and Orange County governing boards incorporated OWASA under Chapter 162A of State law. OWASA began serving the community on February 16, 1977 upon transfer of the municipal and University systems to OWASA.

## ***Governance***

A nine-member Board of Directors governs OWASA. The Chapel Hill Town Council appoints five, the Carrboro Board of Aldermen appoints two and the Orange County Board of Commissioners appoints two Board Members. The OWASA Board adopts the annual budget; sets rates, fees, and charges based on cost-of-service principles; makes policy decisions; and appoints the Executive Director, General Counsel and Independent Auditor.

## ***Water System***

Our water comes from the Cane Creek Reservoir, a three billion gallon supply eight miles west of Carrboro; University Lake, a 450 million gallon reservoir on the west side of Carrboro; and the 200 million gallon Stone Quarry Reservoir three miles west of Carrboro. OWASA has a State allocation of storage capacity in Jordan Lake equivalent to about five million gallons of water per day. OWASA does not currently receive water from Jordan Lake nor have facilities to do so. OWASA maintains emergency-only water system connections with the City of Durham, the Town of Hillsborough and Chatham County public water systems.



***The Cane Creek Reservoir is the Chapel Hill-Carrboro community's primary water source. At left is a downstream view of the Cane Creek Reservoir Dam.***

Our Jones Ferry Road Water Treatment Plant (WTP) has a capacity of 20 million gallons per day (MGD). Our drinking water storage capacity is 8 million gallons and we maintain 415 miles of raw water, finished water, and water interconnection lines.

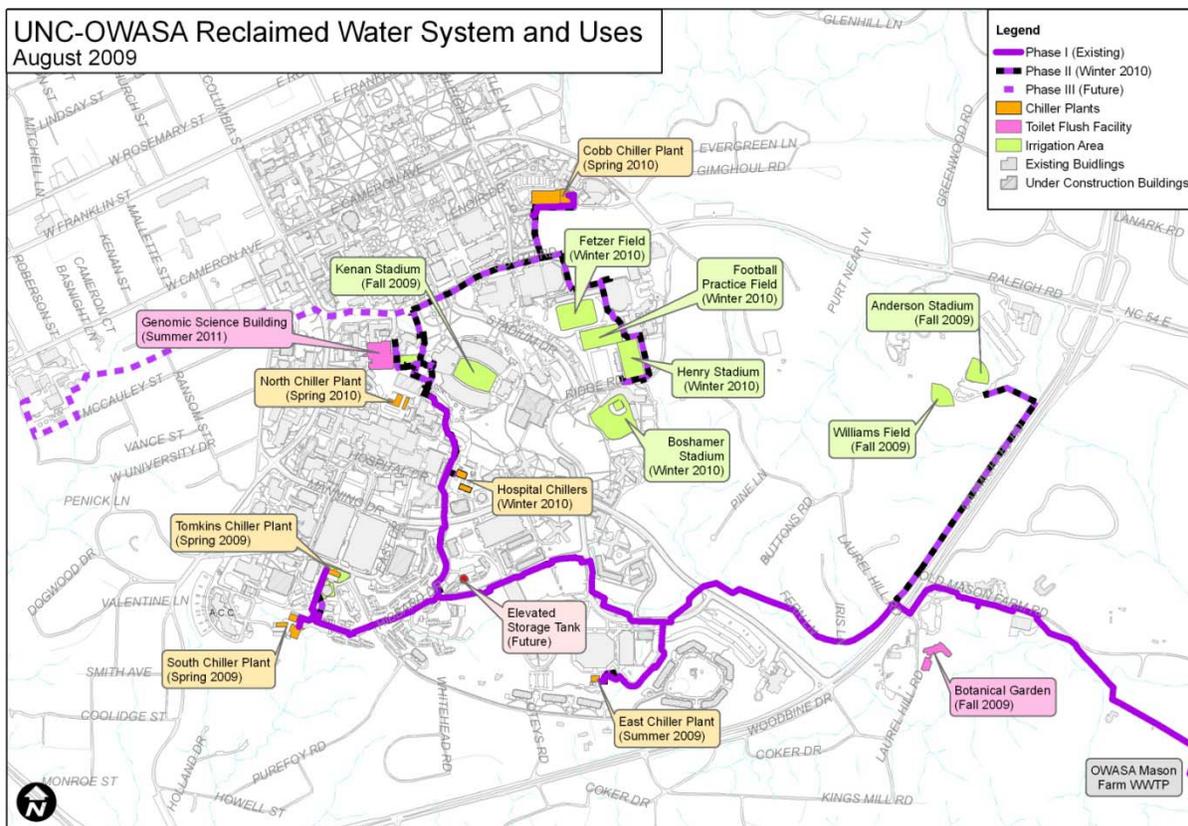
## ***Wastewater System***

We operate and maintain 335 miles of sanitary sewer and force main lines, and 21 pump stations to carry wastewater to the Mason Farm Wastewater Treatment Plant (WWTP), which has a peak month treatment capacity of 14.5 MGD.

Highly treated wastewater (“reclaimed water”) is recycled to the natural environment at Morgan Creek on the southeast side of Chapel Hill or provided to the University of North Carolina at Chapel Hill (UNC) through three miles of reclaimed water lines for use as cooling tower make-up water. Morgan Creek is a tributary of Jordan Lake, a water source for several communities in the region.

### ***Reclaimed Water System***

In the spring of 2009, OWASA and UNC completed construction and testing of the new reclaimed water (RCW) system that initially serves certain facilities in the main campus area. The system includes a pump station, storage tank, chemical treatment systems, and a monitoring and control system at the Mason Farm Wastewater Treatment Plant, and about 16,000 feet of RCW distribution lines 6 to 24 inches in diameter.



***The map above shows the location of reclaimed water system lines from our WWTP to and within the University campus***

The University began using RCW in April, 2009 as make-up water for cooling towers at chiller plants. UNC’s RCW use averaged about 0.3 MGD in the three months of FY 2009 in which the system was in operation. In FY 2010, RCW use is expected to increase to 0.66 MGD, which equals about nine percent of the community’s previous overall water use. At build-out of the system serving the main campus expected around 2028, RCW demand could reach about 2.0 MGD, which would be about 15% of the community’s total water demand.

By decreasing the amount of drinking water used for non-drinking purposes, the RCW system will reduce the community's risks in future droughts and other water shortages. The system will enable OWASA to defer the need for expansion of water supply and treatment capacity, and will also help reduce the amount of nutrients and other pollutants released to Morgan Creek and Jordan Lake.

The RCW project will be financially self-supporting. UNC paid to build the system, and OWASA will recover all operating, maintenance, management, and overhead costs for the RCW through rates and fees. Financial responsibilities, including rate decisions by OWASA, and other technical matters are specified in a contract signed by OWASA and UNC in April 2006. OWASA received about \$2.25 million in Federal and State grants for the project.

The RCW system is a third utility for OWASA. The system revenues and costs are tracked separately to ensure proper cost allocation and recovery through cost-of-service rates.



***The Reclaimed Water Pump Station at our Mason Farm Wastewater Treatment Plant.  
Reclaimed water pipes are painted or wrapped in purple to distinguish them  
from water and sewer lines.***

## ECONOMIC CONDITIONS

In June, 2009 the unemployment rate in Orange County was 7 percent compared to the US average of 9.7% and the North Carolina average of 11.2 percent (Source: US Bureau of Labor Statistics data, not seasonally adjusted).

The estimated population of Orange County increased by seven percent from 2000 through 2008, Carrboro’s and Chapel Hill’s population rose about eight percent during the same period.

The estimated value of permitted construction in Orange County in 2008 totaled \$127.6 million; \$27.7 million commercial and \$99.9 million residential.

Taxable retail sales in Orange County in FY 2008 totaled \$972 million. Over 50 percent of Orange County’s population is in Chapel Hill and Carrboro, and retail sales in the two towns accounted for 78 percent of the county-wide total.

We believe the relative stability of the Chapel Hill-Carrboro economy reflects the substantial size and strength of UNC and UNC Hospitals as public entities serving the entire state. Although new service connections in FY 2009 were well below historical growth, the University continues to actively plan and develop facility and infrastructure construction on its campus areas.

Fiscal Year	2008	2009	% change
<b>Customer accounts (meters read)</b>	<b>20,003</b>	<b>20,137</b>	<b>0.7</b>
<b>Total water sales (thousands of gallons)</b>	<b>2,662,290*</b>	<b>2,504,720</b>	<b>(5.9)</b>
<b>Water sales—average per day</b> <small>* Restated to reflect improved accuracy in measurement tool.</small>	<b>7.294 MGD*</b>	<b>6.862 MGD</b>	<b>(5.9)</b>

In addition to general economic conditions, we believe the significant shift in drinking water demand that occurred during, and has continued since the 2007-08 drought, reflects behavioral and investment/retrofit decisions by our customers in response to public education and information during the drought and the effectiveness of the conservation signal conveyed by our pricing structure.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

**Revised Financial Management Policy** – In March, 2009 the OWASA Board of Directors adopted a new *Financial Management Policy* to enhance our comprehensive approach to strategic financial planning, related policy decisions, and measurements of financial performance.

The document defines criteria and objectives for sound, sustainable financial policies in the categories of general financial; asset management; investment management; debt management; rates, fees and charges; customer care; and annual budgeting.

The new policy provides for strengthened fiscal performance and financial position through improved fund balance and ratio analysis targets.

**FY 2010 Cost Reductions** – In light of significant water demand reductions and in addition to achieving significant savings through spending reductions in FY 2009, OWASA staff identified nearly \$1.7 million in operations and maintenance cost cutting opportunities for FY 2010. These cost cutting measures include a combination of frozen and permanently eliminated full-time positions, representing 12% of the workforce, and the deferral of numerous initiatives including

employee pay increases, certain sewer maintenance programs, our annual meter testing and replacement program and a reduction in the number of days of recreational access to our reservoirs.

We also eliminated or deferred several capital improvement projects allowing a \$2.6 million reduction in capital spending projections for FY 2010 compared to the previous year's projection.

**Accounting and Financial Management/Reporting Systems** - In March, 2009, OWASA engaged an independent consultant to evaluate, analyze and make recommendations to improve OWASA's accounting and financial management reporting systems. The primary objective of the study was to identify short and long-term improvements needed to ensure that the OWASA Board of Directors and staff have accurate and timely financial information to effectively manage the organization.

The engagement included training of selected OWASA Finance Department staff on internal control objectives and risk identification, assessment, and mitigation; the development of a risk assessment for feeder modules to the General Ledger, financial statements, and management reporting in order to identify the business objective for financial statement reliability and the trigger events which may cause the risk to achieving that objective; the review of the information management and technology systems of the organization related to this project; and interviews of senior managers and OWASA Board members to gain insight to the effectiveness of methods used by OWASA to report financial information.

The evaluation resulted in many recommendations to improve OWASA's accounting and financial report processes. Most of these recommendations focused on improved training, greater utilization of existing and new technology tools, particularly in the area of systems integration, and resource realignment to strengthen system support. Addressing these recommendations will be a high priority for the organization in the new fiscal year and beyond.

**Revisions to Water Conservation Standards** -In June, 2009, we simplified and otherwise revised our Water Conservation Standards to place greater emphasis on our rates as a conservation strategy. The revised Standards were developed after a public process and discussions with the governing boards of Carrboro, Chapel Hill, and Orange County. The three local governments revised their water conservation ordinances for OWASA customers to parallel the OWASA standards.

**Water Supply Plan Update** - Staff drafted a comprehensive review of our long-term water supply strategy during FY 2009. The recently completed draft report reviewed underlying assumptions including demand projections, supply/demand-side alternatives, and other alternatives that have been identified since the last comprehensive water supply report in 2000. The draft report indicates that due largely to the potable water demand reductions achieved by our customers OWASA's existing University Lake/Cane Creek Reservoir system and planned expansion of the Quarry Reservoir can meet our drinking water needs substantially further into the future than previously thought.

Except for the expanded Quarry Reservoir, temporary water purchases from neighboring utilities offer the most cost-effective supplemental supply option, especially for the infrequent times and limited amounts of water that may be needed during the next 25 years or more. OWASA's continued participation in the recently established Jordan Lake Partnership will provide important opportunities to develop such arrangements and to gain cost-effective access to our Jordan Lake water supply storage allocation. Through conservation-focused actions, future generations living and working in OWASA's service area will be able to enjoy a reliable supply of high quality drinking water with far less capital investment than predicted nine years ago.

**Odor Elimination at the Mason Farm Wastewater Treatment Plant** –We are continuing our multi-year program to eliminate objectionable off-site odors from the WWTP in accord with requirements by the Town of Chapel Hill.

In October, 2008 we completed design for improvements which cover and treat the foul air from the plant's three primary settling tanks. Construction began in February, 2009 and is on schedule to be completed in September, 2009.

In January, 2009 we completed the design for improvements to cover and treat the foul air from eight of sixteen biological treatment tanks (aeration basins). The approved Capital Improvements Program for FY 2010-2024 includes funds for construction in FY 2011 and FY 2012.

**Meeting of the Waters Sewer Replacement** – The Meeting of the Waters sewer replacement was completed in June, 2009. About 5,400 feet of two parallel 18-inch sewer pipes along Meeting of Waters Creek from Manning Drive and Skipper Bowles Drive to the Mason Farm WWTP were replaced with a single 36-inch pipe. About 400 feet of 24-inch and 8-inch sewer were also replaced, along some water lines in the work area. The sewer line was co-constructed with the Reclaimed Water Transmission Main.

**Other Capital Projects** – The replacement and upsizing of two 8,000-gallon and one 750-gallon chemical (sodium hypochlorite) storage tanks at the WTP began in February, 2009 and will be completed in August, 2009. The existing tanks had deteriorated and required numerous repairs. The new, larger tanks provide greater operational flexibility and will reduce maintenance costs. The project also includes modifications to the facility roofing system and the heating, ventilation, and air conditioning system.

We continue to replace aging water mains to maintain water service reliability. Replacement projects were completed during FY 2009 at the Brookside Condominiums; at the intersection of Martin Luther King, Jr. Boulevard/North Columbia Street/North Street; and at Lexington Drive/Lexington Circle. We installed a redundant water service line for the Morehead Planetarium under a cost sharing agreement with the University.

The Sandy Creek sewer rehabilitation project was completed in December, 2008. The project involved resealing the inside of 1,800 feet of an 8-inch sewer.

The Pope Road Pump Station rehabilitation project was completed in May, 2009. Two pumps and the pump station control panel were replaced by OWASA maintenance staff. At the Heritage Hills Pump Station, an OWASA crew replaced 340 feet of the 8-inch sewer force main along Smith Level Road and replaced one manhole in May, 2009.

The Cleland Drive Pump Station removal project was completed in July, 2009. The pump station was deteriorating and under capacity for the ultimate needs of the area. This project included the design and installation of about 2,600 feet of 12-inch gravity-flow sewer. We also replaced an old water main in the area as part of this project.

In August, 2008, OWASA crews replaced two in-line valves on the Rogerson Drive Force Main which were determined to be non-operational. The 24-inch and 30-inch Rogerson Drive Force Main carries nearly half of the flow of the entire service area, and the valve replacement was a major effort requiring construction of permanent bypass piping as well as temporary stoppage of force main flow using a 'double line-stop' procedure.

The WWTP Digester System Upgrades project was completed in February, 2009. This project included replacing various electrical components in the old Digester Building to meet the building's reclassification as an explosion-proof space per the National Electrical Code.

**GIS Improvements** – Our computer-based Geographic Information System (GIS) includes detailed information about the water and sewer system as well as extensive data about land and property in our service area and elsewhere in Orange County.

GIS is a critical component of OWASA's knowledge management and retention efforts because it provides OWASA field crews with valuable information about the location, pipe sizes, material types, etc. for OWASA's extensive underground infrastructure through a user friendly computer-based mapping tool. OWASA has initiated an aggressive GIS field validation effort that will tremendously improve the accuracy and functionality of our GIS. This validation effort entails breaking the entire OWASA service area into more than 3,000 grids and then assigning long term OWASA employees (those with extensive knowledge of OWASA's underground infrastructure) to locate the underground infrastructure in each of those grids. Once the underground infrastructure is located in the field, Global Positioning System (GPS) coordinates are obtained above each significant component and this information is entered into GIS so that even the most inexperienced OWASA employees will be able to promptly and accurately locate critical underground infrastructure, even in those areas where the underground piping was installed prior to the existence of OWASA and including a large number of areas where there are no record drawings or maps showing the location of the pipes.

Although this will be a multi-year undertaking, significant progress was made in 2009 in improving the accuracy of GIS data, in training of OWASA employees in utilizing GIS and in providing our crews with the computer hardware that allows them to locate underground infrastructure using laptop computers in the field.

## FINANCIAL INFORMATION

The annual budget is an integral part of OWASA's accounting system and financial operations. Appropriations are set at the departmental level. The annual budget and capital project ordinances are adopted by the OWASA Board of Directors, creating a legal limit on annual spending. Multi-year project ordinances may be adopted for capital projects. OWASA's operations are accounted for, and reported as, an enterprise fund because our services are primarily funded with user fees.

OWASA's management is responsible for the accounting system and for establishing and maintaining internal financial controls. The internal control system is designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and the evaluation of costs and benefits requires estimates and judgments by management.

Management believes that OWASA's internal accounting controls adequately protect assets and provide reasonable assurance of the proper recording of financial transactions. However, under the strengthened scrutiny required by auditing standards, one finding of a significant deficiency in internal control procedures was cited by the auditor. The cited deficiency led to an overstatement of current liabilities of approximately \$150,000, or one percent of total current liabilities. OWASA management takes such findings seriously and has already taken steps to eliminate the cause of the internal control finding. Four such findings were cited in the previous year's financial report, and their elimination from this year's report indicates management's efforts toward significant improvement in OWASA's internal control procedures.

As a self-supporting and self-sustaining single-purpose entity, the measurement focus of OWASA's financial accounting system is on the flow of total economic resources. With this measurement focus, all assets and liabilities associated with our operations are included in the *Statement of Net Assets*. Closely related to the measurement focus is the basis of accounting, which determines when transactions are recognized. OWASA uses the accrual basis of accounting, in which revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the actual date of receipt or disbursement of cash.

OWASA uses seasonal water rates to encourage conservation by our nonresidential customers during peak demand periods. Customers pay a higher commodity rate (charge per thousand gallons) during the peak demand months of May through September, and a lower rate in the remaining months. In 2007, the Board of Directors adopted a block rate conservation pricing structure for our individually metered residential customers. Annual adjustment of water and sewer rates, charges and fees normally occurs on October 1.

Please refer to *Management's Discussion and Analysis* and the basic financial statements for detailed information on OWASA's financial performance in FY 2009.

## ***Cash Management***

OWASA's cash management policy is part of our *Financial Management Policy* adopted by the Board of Directors in March, 2009. This policy is designed to ensure efficient use of interest rates and maximization of fund performance balanced against investment risk and cash flow needs.

All cash deposits are made in Board-designated official depositories and are insured or collateralized as required by State law. OWASA may designate, as an official depository, any bank or savings association whose principal office is in North Carolina. At June 30, 2009, OWASA's cash was invested in the N.C. Capital Management Trust, Treasury Securities or public fund money market accounts.

To facilitate operational efficiency and to reduce costs of the accounts payable function, authorized OWASA employees use purchasing cards in accord with internal control procedures and policies. Purchasing card use comprised about six percent of operating expenditures during FY 2009.

To further reduce costs, OWASA uses a web-based banking service for fund transfers including direct deposit of payroll, customer bank drafts, debt service payments and interfund transfers.

OWASA provides customers with various options for making payments. In addition to the traditional methods of mail and walk-in service, customers may make payments through automatic bank drafts and credit cards. Credit card transactions can be initiated through OWASA's Website ([www.owasa.org](http://www.owasa.org)), over the phone, or at our cashier's desk.

## ***Risk Management***

OWASA employs a combination of traditional insurance coverage and an active safety program to manage risk. OWASA maintains insurance coverage for property damage, general liability (including liability for OWASA vehicles and public officials), and workers' compensation. To consolidate coverage and to take advantage of the benefits of a state-wide insurance risk pool, OWASA participates in the N.C. League of Municipalities' Interlocal Risk Financing Fund for property damage, general liability and workers' compensation insurance. A commercial insurer provides employee health and accident coverage.

OWASA's Safety Committee and Senior Safety Committee actively engage in reducing risks in the workplace. An employee from each department is appointed by the department head to represent his/her respective department for a term of two years. The Safety Committee meets once a month to review all accidents and discuss safety issues. The Committee also reviews safety policies and makes recommendations for revisions and/or additions. All employees are required to attend safety training related to their jobs. In addition, regularly scheduled safety-training sessions utilizing video programs provide safety and health training to all employees.

### ***Independent Audit***

OWASA is required by State law to undergo an annual independent financial audit. OWASA's auditor, Cherry, Bekaert & Holland, L.L.P., was retained following an open, competitive qualifications-based selection process. The auditor's report on the Financial Statements is included in the Financial Section of this report.

### ***Certificate of Achievement for Excellence in Financial Reporting***

OWASA has participated in the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting since 2000. To receive a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our comprehensive annual financial report for FY 2009 continues to meet the Certificate of Achievement Program requirements and we will submit it to the GFOA to determine its eligibility for another certificate.

### ***Distinguished Budget Presentation Award***

OWASA received its tenth Distinguished Budget Presentation Award from the GFOA for our FY 2009 budget.

This award program recognizes governments that prepare high quality budget documents to meet the needs of decision-makers and citizens.

### ***Acknowledgements***

We express our appreciation to the independent certified public accountants, Cherry, Bekaert & Holland, L.L.P., who assisted and significantly contributed to this report.

Preparation of this report could not have been accomplished without the efficient and dedicated work of the OWASA staff.

We thank the OWASA Board of Directors for their strong policy guidance in financial management and of OWASA's overall services to the community.

## CONCLUSION

We believe the accompanying financial statements fairly present OWASA's financial position as of June 30, 2009 and the financial results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Respectfully submitted,



Ed Kerwin  
Executive Director



Kevin M. Ray  
Director of Finance and Customer Service

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange Water and Sewer  
Authority, North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



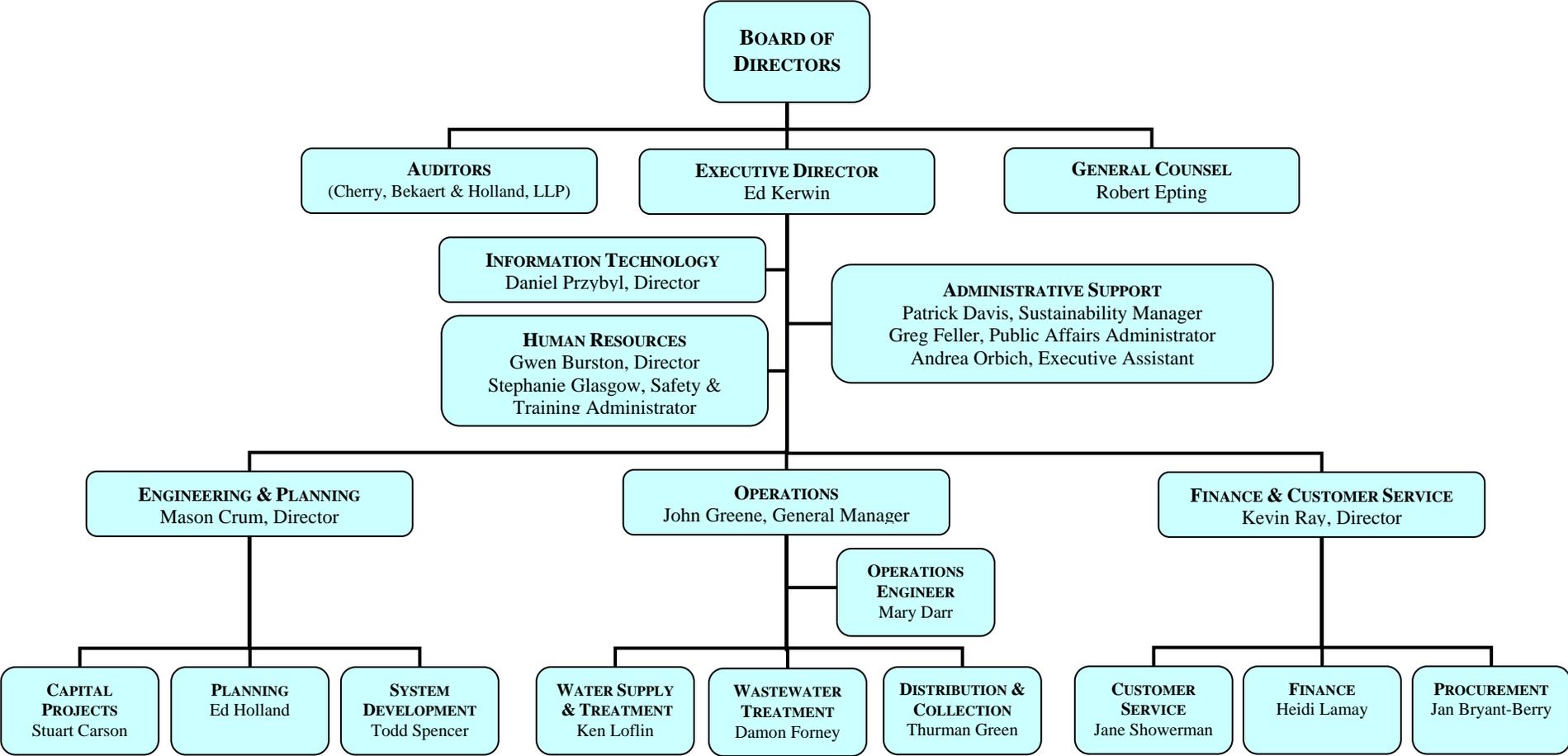
A stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

# Orange Water and Sewer Authority



**ORANGE WATER AND SEWER AUTHORITY**

**CHAIR**

Randolph (Randy) M. Kabrick, P.E.  
207 Woodleaf Drive  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/10

**VICE CHAIR**

Gordon Merklein  
504 Highgrove Drive  
Chapel Hill, NC 27516  
Appointed by Chapel Hill; Term Expires: 6/30/10

**SECRETARY**

Braxton Foushee, Secretary  
100 Williams Street  
Carrboro, NC 27510  
Appointed by Carrboro; Term Expires 6/30/11

Fred Battle  
1105 Brenda Court  
Chapel Hill, N.C. 27516  
Appointed by Orange County; Term Expires 6/30/09

Michael A. Clarke  
Carol Woods Retirement Community  
750 Weaver Dairy Road #1202  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/11

Joyce C. Preslar  
9417 Bethel-Hickory Grove Church Road  
Chapel Hill, NC 27516  
Appointed by Orange County; Term Expires 6/30/11

Gene Pease  
208 Glandon Drive  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/09

Alan Rimer, P.E.  
519 Hooper Lane  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/10

William R. Stott, III  
105 Oleander Road  
Carrboro, NC 27510  
Appointed by Carrboro; Term Expires 6/30/09

**ORANGE WATER AND SEWER AUTHORITY**  
**OWASA MANAGEMENT TEAM**

Jan Bryant-Berry, C.L.G.P.O., Procurement Manager  
Gwen Burston, S.P.H.R., Director of Human Resources  
Stuart Carson, P.E., Engineering Manager (Project Management)  
Mason Crum, P.E., Director of Engineering and Planning  
Damon Forney, Wastewater Treatment and Biosolids Manager  
Thurman Green, Distribution and Collections Systems Manager  
John Greene, P.E., General Manager of Operations  
Ed Holland, A.I.C.P., Director of Planning and Development  
Ed Kerwin, Executive Director  
Heidi Lamay, Finance Manager  
Kenneth Loflin, Water Supply and Treatment Manager  
Andrea Orbich, Clerk to the Board/Executive Assistant  
Dan Przybyl, Director of Information Services  
Kevin M. Ray, Director of Finance and Customer Service  
Jane Showerman, Customer Service Manager  
Todd Spencer, P.E., Engineering Manager (System Development)

**GENERAL COUNSEL**

Robert Epting, Esquire  
Epting and Hackney



## **Independent Auditors' Report**

The Board of Directors  
Orange Water and Sewer Authority  
Carrboro, North Carolina

We have audited the accompanying statements of net assets of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

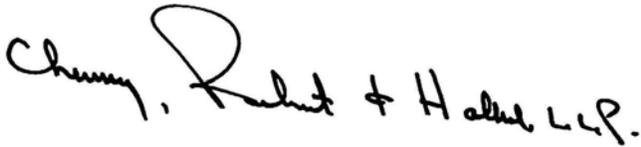
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009 and 2008, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis and required supplementary information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this data. However, we did not audit this information and express no opinion thereon.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules listed in the table of contents, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." in a cursive, flowing script.

Raleigh, North Carolina  
September 4, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Orange Water and Sewer Authority (OWASA) offers to the readers of OWASA's financial statements the following discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2009 (FY 2009). This presentation is intended to further the readers' understanding of the financial statements which follow, and should be read in conjunction with those statements and the introductory letter of transmittal found on pages i–xiii.

### FINANCIAL HIGHLIGHTS

- At year end, OWASA's net assets totaled \$201 million, reflecting a \$16.2 million increase over the previous year primarily due to the acquisition of capital assets through equity funding and grants and contributions, with no issuance of new debt.
- Current assets increased by approximately \$2.0 million, reflecting stronger fund balance and fewer construction related payables at year-end.
- An increase in capital assets of approximately \$9.8 million; resulting from OWASA's ongoing commitment to maintaining an adequate water and sewer infrastructure and due to the receipt of asset contributions in aid of construction.
- Total current liabilities decreased slightly during the year, although there were shifts in the component balances discussed more fully on page 5.
- A decrease of about \$4.1 million in noncurrent liabilities resulted from principal payments on long-term debt with no new debt issued.
- OWASA continues to enjoy credit ratings of Aa2 from Moody's, and AA+ from Standard and Poor's and Fitch.

### OVERVIEW OF THE FINANCIAL STATEMENTS

OWASA's primary mission is to provide water and sewer services to Chapel Hill, Carrboro and portions of southeastern Orange County. OWASA does not provide other general purpose government services or programs. OWASA's operations, capital expansion program and debt payments are funded almost entirely through rates, fees and other charges for these water and sewer services. As such, OWASA is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

As a stand-alone enterprise fund, OWASA's basic financial statements consist of a *Statement of Net Assets*, a *Statement of Revenues, Expenses and Changes in Net Assets (Equity)* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short and long-term financial information about, and implications for, OWASA's financial position. Presentation of two-year and three-year comparative data in these schedules further enhances the reader's ability to gauge OWASA's fiscal strength and provides useful trend information. To further illuminate the information contained in these statements, *Notes to the Financial Statements* and a *Statement of Revenues and Expenditures – Budget and Actual*, appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, generally statistical and demographic in nature, is presented.

The *Statement of Net Assets*, similar to a balance sheet, presents OWASA's basic financial position through disclosure of information about OWASA's assets and liabilities. Net assets represent the difference between total assets and total liabilities. Net assets may serve over time as one useful indicator of OWASA's financial condition.

The *Statement of Revenues, Expenses and Changes in Net Assets*, similar to private sector statements, provides information regarding OWASA's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net assets, which links this statement to the *Statement of Net Assets*.

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, capital and related financing and investing activities. Because OWASA's *Statement of Revenues, Expenses and Changes in Net Assets* measures the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance the reader's understanding of this difference, the *Statement of Cash Flows* also includes a reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

The *Notes to the Financial Statements* provide additional information critical to the understanding of the basic financial statements.

## FINANCIAL ANALYSIS

<b>Orange Water and Sewer Authority</b>				
<b>Schedule of Net Assets</b>				
(\$ millions)				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<b>Percentage of Change (FY08 to 09)</b>
Current assets and restricted noncurrent assets	<b>\$21.6</b>	\$20.0	\$27.8	<b>7.9%</b>
Capital and other long-term assets	<u>292.1</u>	<u>282.4</u>	<u>272.2</u>	<b>3.4%</b>
<b>Total assets</b>	<b>313.7</b>	302.4	300.0	<b>3.8%</b>
Current liabilities	<b>10.3</b>	11.1	10.9	<b>(7.7%)</b>
Noncurrent liabilities	<u>102.5</u>	<u>106.7</u>	<u>111.5</u>	<b>(3.9%)</b>
<b>Total liabilities</b>	<b>112.8</b>	117.8	122.4	<b>(4.3%)</b>
Net assets				
Invested in capital assets, net of related debt	<b>184.5</b>	177.3	161.8	<b>4.1%</b>
Restricted	<b>1.2</b>	1.3	1.3	<b>(7.7%)</b>
Unrestricted	<b>15.1</b>	6.0	14.5	<b>152%</b>
<b>Total net assets</b>	<b>\$200.8</b>	\$184.6	\$177.6	<b>8.8%</b>

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial condition. OWASA's assets exceeded liabilities by \$201 million at June 30, 2009, compared to \$184 million and \$178 million at June 30, 2008 and 2007, respectively. This trend of increased net worth is indicative of OWASA's commitment to maintaining an infrastructure to meet the water and sewer needs of its customers now and in the future, and reflects the fact that a significant portion of recent infrastructure development is funded through cash rather than debt.

Capital assets net of related debt comprised more than 90% of total net assets for the comparative years of 2007 through 2009. These capital assets are essential in providing water and sewer services to our customers and consequently, these assets are not available for future

spending. The resources needed to repay the related debt must be provided by other sources. At June 30, 2009, these other resources totaled \$16.3 million. \$1.2 million of these assets are subject to external restrictions as to how they may be used, but these restrictions primarily require that they be used to pay for capital assets or debt related to capital assets. The decrease in restricted balances between 2007 and 2009 generally reflects increased cash financing of infrastructure development; no bond proceeds remain in trust accounts prior to reimbursement eligibility. The remaining \$15.1 million is unrestricted and may be used upon liquidation for any lawful purpose.

OWASA's overall financial position strengthened between fiscal years ended June 30, 2007 and 2009 as net assets increased by \$23.2 million. Total assets increased during the same period by \$13.7 million, reflecting cash financing of infrastructure, as evidenced by a shift from current to capital assets.

Analysis of total liabilities further demonstrates the benefit of cash financing and debt reduction. Current liabilities remained generally unchanged between 2007 through 2009, indicating the relative stability of operations, including well planned yet flexible operational and capital budgets, an efficient accounts payable process and leveled debt service structuring. Noncurrent and total liabilities decreased by approximately four percent, or about \$4.1 million each year during the same period reflecting principal payments on long-term debt.

OWASA anticipates continued increases in its net worth arising from our planned capital improvements development program and projected surpluses of revenues and contributions over expenditures.

<b>Orange Water and Sewer Authority</b>				
<b>Revenues, Expenses and Change in Net Assets</b>				
<b>(\$ Millions)</b>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<b>Percentage of Change (FY08 to 09)</b>
Operating revenues	<b>\$29.5</b>	\$28.8	\$25.4	2.4%
Operating expenses	<u>27.0</u>	<u>23.9</u>	<u>23.6</u>	<u>13.1%</u>
<b>Operating income</b>	<b>2.5</b>	4.9	1.8	<b>(49.0%)</b>
Nonoperating revenues (expenses)	<u>(0.8)</u>	<u>(1.3)</u>	<u>(.9)</u>	<u>(38.5%)</u>
<b>Income before contributions</b>	<b>1.7</b>	3.6	.9	<b>(52.8%)</b>
Capital contributions	<u>14.5</u>	<u>3.3</u>	<u>7.4</u>	<u>339%</u>
<b>Increase in net assets</b>	<b>16.2</b>	6.9	8.3	<b>135%</b>
Net assets, July 1	<u>184.6</u>	<u>177.6</u>	<u>169.3</u>	<u>3.9%</u>
Net assets, June 30	<u>\$200.8</u>	<u>\$184.6</u>	<u>\$177.6</u>	<u>8.8%</u>

The above condensed three-year comparison of Revenues, Expenses and Changes in Net Assets, combined with the following discussion provides additional insight as to the causes affecting net assets.

- **Operating Revenues:** OWASA is not empowered to levy or collect taxes, nor does OWASA receive funding from the taxing authorities within our service area. OWASA's operations, capital expansion program and debt service are funded almost entirely from fees charged to our customers for water and sewer services, and other related services. As such, OWASA's revenue stream is impacted by fluctuations in demand for our services and other economic factors.

Revenues derived from water and sewer services are comprised of two components; a fixed monthly service charge based on the size of the installed water meter and a monthly volume usage (commodity) charge per thousand gallons of water consumed. The sewer commodity charge for commercial customers, although based on water consumption, incorporates the assumption that not all water consumed is returned to the sewer system and is calculated at a lower rate to accommodate this assumption. Sewer billings for residential customers under the new block rate structure are capped at fifteen thousand gallons. All rates, fees and charges are calculated under the cost-of-service rate making methodology.

Continuing a trend that began near the beginning of the decade, potable water sales volume declined nearly six percent during FY 2009 and was about 3.2%, or \$870,000 below expectations. In addition to general economic conditions, the decline in customer demand reflects our customers' lingering drought awareness, OWASA's continued commitment to water resource conservation, the strong conservation signal imparted by our increasing block rate and seasonal pricing structures for residential and commercial customers, respectively, and a combined rate adjustment in water and sewer charges of approximately 17%. The magnitude of the rate increase was in direct response to the anticipated reduction in customer demand. The 17% rate increase, partially offset by the six percent drop in demand, provided operating revenues of \$29.5 million, representing only a \$0.7 million increase over the prior year.

- **Operating Expenses:** With an unprecedented increase in chemical costs as the primary contributing factor, operating expenses of \$27.0 million represent an increase of about 14.4% over the preceding two years, and about an 13.1% increase between FY 2008 and FY 2009. OWASA's flexibility in operational activity and budget execution enabled our managers to save over three percent, or \$630,000 of their operating appropriation. These savings significantly off-set the impact of lower water sales on total operating income. Further, the operating expense includes a \$7.7 million charge for depreciation and a \$738,000 charge for post-employment benefits. From a cash flow perspective, OWASA's ability to meet operating expenses and adequately cover debt service remained positive.
- **Nonoperating Revenues (Expense):** Nonoperating revenues are comprised primarily of service availability fees and interest earnings. Service availability fees, similar to impact fees, are calculated to recover from new customers the fair share cost of system capacity when a new connection is made to the system. Nonoperating expenditures are made up primarily of interest expense on debt and amortization of various bond expenses.

Availability fees of \$2.5 million represented a 27%, or \$533,000 surplus in comparison to expectations, but this does not necessarily reflect an improvement in economic conditions. The additional availability fees arose from the connection of relatively large meters rather than any significant increase in the number of connections. Total new connections during FY 2009 remain well below historical growth. Although fund balance improved somewhat during the year, interest earnings decreased dramatically in FY 2009. Interest rates declined to less than one half of a percent and investments in more profitable but riskier vehicles were divested in favor of the safety and liquidity of secured deposits in existing market conditions. Accordingly, earnings fell by 86% compared to the prior year and were only about 41% of projections. Other income includes items such as gains on the disposal of surplus property and is generally not of a material amount.

Bond and lease amortization increased by 19% reflecting a full year of capital lease amortization. Although OWASA paid interest on nearly \$5.0 million less in outstanding debt compared to 2008 and while interest rates on our variable rate bonds were very favorable

for most of the year, \$898,000 of interest was capitalized in FY 2009 and the net decrease in reported expense was 13.8%, or \$527,000.

- **Capital Contributions:** Total capital contributions increased by over 300% during FY 2009. Receipts included significant state and federal grants and other contributions in aid of construction related to the new reclaimed water system. Grants totaled \$1.6 million and other contributions of \$12.9 million were comprised of reimbursements for construction of the reclaimed water systems and developer dedicated facilities.

Contributions in aid of construction in the form of dedicated service lines are reclassified as contributions after net income. Although OWASA receives such contributions annually, these transactions are not of a cash nature and are not included in the budget under the modified accrual method.

### Capital Assets

OWASA annually expands or places into service new capital assets. FY 2009 additions totaled 9.9 million, net of depreciation. These assets included the rehabilitation or replacement of various water mains, improvements to chemical feed capabilities at the Jones Ferry Water Treatment Plant, the rehabilitation of a major sewer interceptor in conjunction with the construction of a reclaimed water transmission line and the construction of the reclaimed water system pumping and storage facility.

The value of construction in progress at year-end decreased by more 60% from the previous year, reflecting the completion of the \$55 million, multi-year project to upgrade and expand the Mason Farm Waste Water Treatment Plant. Completion of this project is mirrored by an increase in sewer treatment and collection assets.

The continued downturn in customer demand has led to a leaner capital improvements program for the near future, but also will likely enable the deferral of system expansion projects well into the future. Please refer to Note 4 for additional information on capital assets.

<b>Orange Water and Sewer Authority</b>				
<b>Capital Assets</b>				
<b>(\$ Millions)</b>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<b>Percentage of Change (FY08 to 09)</b>
Land	<b>\$20.0</b>	\$20.0	\$20.0	<b>0.0%</b>
Construction in progress	<b>23.2</b>	67.3	75.2	<b>(65.6%)</b>
Water treatment and distribution	<b>98.5</b>	99.5	84.0	<b>(1.0%)</b>
Sewer collection and treatment	<b>130.3</b>	77.1	73.8	<b>41.3%</b>
Fixtures and equipment	<b>19.1</b>	17.5	19.2	<b>9.1%</b>
<b>Total</b>	<b><u>\$291.1</u></b>	<b><u>\$281.4</u></b>	<b><u>\$272.2</u></b>	<b><u>3.4%</u></b>

### Debt Administration

OWASA policy dictates that at least 30% of capital projects be funded with cash from operations, with the remainder funded through borrowing. At June 30, 2009, 2008 and 2007, OWASA's outstanding debt totaled \$106.6 million, \$111.5 million, and \$115.3 million respectively, net of applicable premiums, discounts and deferred refunding costs. This amount

consists of water and sewer system revenue and refunding bonds issued in 1999, 2001, 2003, 2004, 2005 and 2006. At year end, OWASA owed an accrued debt service liability of approximately \$6.8 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2009.

OWASA enjoys credit ratings for its bonds of Aa2 by the Moody's rating agency. Standard & Poor's and Fitch rate OWASA's creditworthiness as AA+. These "double A" ratings reflect OWASA's strong fiscal policy and standards and are considered excellent for an entity that does not have taxing authority.

Please refer to Note 5 in the Notes to Financial Statements section for greater detail on OWASA's outstanding debt obligations.

### **Economic Factors**

OWASA, located in Orange County, North Carolina, enjoys the benefit of several key factors within its service area.

- The University of North Carolina at Chapel is OWASA's largest principal customer; generating approximately about a quarter of total water sales.
- The relative stability of the Chapel Hill-Carrboro economy reflects the substantial size and strength of UNC and UNC Hospitals as public entities serving the entire state. Although new service connections in FY 2009 were well below historical growth, the University continues to actively plan and develop facility and infrastructure construction on its campus areas.
- Further enhancing the stability of our customer base is the fact that there is no major industry in our service area subject to significant changes in economic conditions.
- Orange County's unemployment rate is generally much better than the State or National average.

In addition to the existing good water stewardship by our customers, OWASA encourages water conservation through public education, voluntary and mandatory water use restrictions, and pricing structure to ensure adequate water supplies. However, conservation carries significant implications for projected revenue streams. As described earlier in this document, water consumption decreased during the year by 5.9% and was below expectations, and while availability fees were above expectations, new system connections remain well below historical average. Nevertheless, OWASA ended FY 2009 slightly above budget. To its credit, OWASA has been able to successfully manage its operational spending budget to create significant offsets to these revenue deficits without notable degradation of services or programs. At the same time, our total and net assets increased while liabilities were reduced by a prudent debt repayment pace. During a period when demand is declining and the cost of service increases, OWASA demonstrated the need flexibility to remain fiscally strong and sustainable into the future.

### **Requests for Information**

The report is designed to provide an overview of the Orange Water and Sewer Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance and Customer Service, 400 Jones Ferry Road, Carrboro, North Carolina 27510-2001.

ORANGE WATER AND SEWER AUTHORITY  
**STATEMENTS OF NET ASSETS**  
June 30, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current assets		
Cash and cash equivalents	\$ 7,274,608	\$ 6,556,847
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$115,325 for 2009 and \$115,325 for 2008)	2,901,325	3,378,246
Other	2,566,921	540,102
Inventory, materials and supplies	795,919	751,178
Prepaid expenses	17,133	15,191
Restricted cash and cash equivalents:		
Cash and cash equivalents, trustee	6,811,395	7,077,816
<b>Total current assets</b>	<b>20,367,301</b>	<b>18,319,380</b>
Noncurrent assets		
Restricted cash and cash equivalents		
Cash and cash equivalents, authority	1,176,906	1,168,081
Cash and cash equivalents, trustee	49,698	517,768
<b>Total restricted cash and cash equivalents</b>	<b>1,226,604</b>	<b>1,685,849</b>
Capital assets:		
Non-depreciable	43,153,781	87,258,865
Depreciable	247,996,014	194,130,106
<b>Total capital assets net, of accumulated depreciation</b>	<b>291,149,795</b>	<b>281,388,971</b>
Unamortized bond expenses, net of accumulated amortization of \$653,037 for 2009 and \$564,133 for 2008	935,730	1,024,634
	<b>935,730</b>	<b>1,024,634</b>
<b>Total noncurrent assets, net</b>	<b>293,312,129</b>	<b>284,099,454</b>
<b>Total assets</b>	<b>313,679,430</b>	<b>302,418,834</b>
 <b>Liabilities and Net Assets</b>		
Current liabilities		
Payable from current assets:		
Trade and construction contracts payable	1,570,516	2,601,352
Customer deposits and advances	1,212,728	947,612
Accrued expenses	664,417	640,081
Payable from restricted cash and cash equivalents:		
Accrued interest	1,970,281	2,083,434
Current maturities of bonds payable	4,840,566	4,845,566
Current maturity of capital lease	15,504	13,470
<b>Total current liabilities</b>	<b>10,274,012</b>	<b>11,131,515</b>
Noncurrent liabilities		
Bonds payable	101,775,666	106,616,233
Capital lease	52,017	67,521
Other noncurrent liabilities	738,000	-
<b>Total liabilities</b>	<b>112,839,695</b>	<b>117,815,269</b>
Net assets		
Invested in capital assets, net of related debt	184,466,042	177,287,377
Restricted for maintenance reserve	1,226,604	1,168,081
Restricted for debt service	6,114	154,388
Unrestricted	15,140,975	5,993,719
<b>Total net assets</b>	<b>\$ 200,839,735</b>	<b>\$ 184,603,565</b>

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Years Ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Operating revenues:		
Water	\$ 15,285,506	\$ 16,378,833
Sewer	12,798,394	11,046,437
Service initiation fees	141,355	169,603
Reclaimed water	78,520	-
Other	1,233,515	1,199,220
<b>Total operating revenues</b>	<b>29,537,290</b>	<b>28,794,093</b>
Operating expenses:		
Water supply and treatment	2,665,629	2,441,028
Water distribution	2,160,231	2,275,756
Sewer treatment	3,487,838	2,981,891
Sewer collections	1,035,025	1,134,682
General and administrative	4,567,519	4,467,944
Customer relations	598,092	672,147
Maintenance	2,135,038	1,881,395
Laboratory	837,770	788,628
Depreciation and amortization	8,765,924	7,215,175
Other post-employment benefits	738,000	-
<b>Total operating expenses</b>	<b>26,991,066</b>	<b>23,858,646</b>
<b>Operating income</b>	<b>2,546,224</b>	<b>4,935,447</b>
Nonoperating revenues (expenses):		
Customer fees	2,498,459	1,995,415
Investment income, net of fair value of investments adjustment	80,343	584,031
Interest expense	(3,305,193)	(3,832,320)
Amortization of bond and lease expense	(83,338)	(69,940)
Other	5,687	2,865
<b>Income before contributions</b>	<b>1,742,182</b>	<b>3,615,498</b>
Capital contributions:		
Capital grants and contributions	1,577,049	926,504
Contributions in aid of construction	12,916,939	2,390,159
<b>Total capital contributions</b>	<b>14,493,988</b>	<b>3,316,663</b>
<b>Increase in net assets</b>	<b>16,236,170</b>	<b>6,932,161</b>
Net assets:		
Beginning	184,603,565	177,671,404
Ending	<b>\$ 200,839,735</b>	<b>\$ 184,603,565</b>

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities		
Receipts from customers	\$ 28,780,696	\$ 27,178,066
Payments to suppliers	(11,864,741)	(8,128,344)
Payments to employees	(8,702,403)	(9,605,042)
Other receipts	1,227,868	1,303,276
<b>Net cash provided by operating activities</b>	<b>9,441,420</b>	<b>10,747,956</b>
Cash flows from capital and related financing activities		
Acquisition and construction of property, plant and equipment	(4,714,250)	(13,128,658)
Proceeds from sale of property, plant and equipment	8,459	-
Proceeds from the issuance of capital leases	-	86,043
Principal paid on bond maturities and other long-term debt	(4,853,470)	(3,810,052)
Interest paid on bond maturities on other long-term debt	(4,316,718)	(4,801,519)
Customer fees received	2,769,262	2,302,227
Capital grants and contributions	1,577,049	926,504
Bond issuance costs, premiums and refunding charges	-	3,344
<b>Net cash used in capital and related financing activities</b>	<b>(9,529,668)</b>	<b>(18,422,111)</b>
Cash flows from investing activities		
Interest and dividends on investments	80,343	584,031
<b>Net cash provided by investing activities</b>	<b>80,343</b>	<b>584,031</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(7,905)</b>	<b>(7,090,124)</b>
Cash and cash equivalents:		
Beginning	15,320,512	22,410,636
Ending	<b>\$ 15,312,607</b>	<b>\$ 15,320,512</b>
Reconciliation of cash and cash equivalents:		
Current assets	\$ 7,274,608	\$ 6,556,847
Restricted assets:		
Authority	1,176,906	1,168,081
Trustee	6,861,093	7,595,584
	<b>\$ 15,312,607</b>	<b>\$ 15,320,512</b>

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Reconciliation of operating income to net cash		
Provided by operating activities		
Operating income	\$ 2,546,224	\$ 4,935,447
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation and amortization	8,765,924	7,215,175
Gain on sale of property, plant and equipment	(5,647)	-
Changes in assets and liabilities:		
Trade accounts receivable	476,921	(416,807)
Other receivables	(2,026,819)	104,056
Inventory	(44,741)	(81,763)
Prepaid expenses	(1,942)	5,812
Trade and construction contracts payable	(1,030,836)	(929,154)
Accrued expenses	24,336	(84,810)
Other noncurrent liabilities	738,000	-
Net cash provided by operating activities	<b>\$ 9,441,420</b>	<b>\$ 10,747,956</b>
 Supplemental schedule of noncash capital and related financing activities, noncapital financing activities and investing activities		
 Property, plant and equipment contributed by private developers	<b>\$ 12,916,939</b>	<b>\$ 2,390,159</b>
 Capitalized interest, net of investment earnings	<b>\$ 898,372</b>	<b>\$ 871,241</b>
 Amortization of bond expenses, bond discounts and deferred refunding gains and losses	<b>\$ (83,338)</b>	<b>\$ (69,940)</b>

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies**

a. Reporting entity

Orange Water and Sewer Authority (the "Authority") was created pursuant to Chapter 162A of the North Carolina General Statutes by the Board of Commissioners of Orange County, and the Boards of Aldermen of the Towns of Chapel Hill and Carrboro in June 1975, as a public entity, politic and corporate, for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems serving the above governmental jurisdictions and certain contiguous areas. The Authority is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the Authority's Board of Directors to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency.

Because the Town Council of Chapel Hill appoints a majority of the authority's Board of Directors, and may remove them without cause, the Authority falls within the definition of a "Component Unit" provided in applicable accounting standards. For this reason, the Authority's financial data is incorporated into the Comprehensive Annual Financial Report of the Town of Chapel Hill.

b. Measurement focus, basis of accounting, and financial statement presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Authorities also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

c. Assets, liabilities, and net assets

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All deposits of the Authority are made in board-designated official depositories and are secured as required by State statute. The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposits.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies (Continued)**

State statute authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC-registered mutual fund.

The Authority's investments with a maturity of more than one year at acquisition and nonmoney market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, a SEC-register (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade receivables that are determined to be uncollectible by the client are based on their knowledge of collection history for similar customers. The Authority grants credit to residential, business and industrial customers, substantially all of whom are local to the Orange County, North Carolina area.

3. Inventory, materials and supplies

Materials and supplies are valued at average cost.

4. Restricted assets

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "maintenance reserve" accounts are used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments.

5. Other assets

Unamortized bond expenses represent the difference between the reacquisition price and the net carrying amount of debt that is being deferred and amortized when new debt is issued for current or advanced refunding of existing debt. Costs incurred attributable to the issuance of revenue bonds have been deferred and are being amortized over the life of the bonds using the effective interest method.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies (Continued)**

6. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	<u>Years</u>
Water treatment and distribution	20 - 60
Sewer collection and treatment	40 - 60
Fixtures and equipment	5 - 20

Assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at the inception of the respective leases. The amounts capitalized are being amortized by the straight-line method over the lesser of the term of the lease or the estimated life of the asset. Amortization of these assets is included in depreciation expense.

7. Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements, but is limited to thirty days. At June 30, 2009 and 2008, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$421,094 and \$424,798, respectively.

8. Long-term debt

Long-term debt is reported net of applicable bond premium or discount, which are deferred and amortized over the life of the bonds using the effective interest method.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies (Continued)**

9. Net assets

Invested in capital assets, net of related debt net assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets for maintenance reserve represent the Authority's portion of net assets that are restricted by externally imposed constraints by creditors that relate to the Authority's revenue bonds.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

10. Operating revenues and expenses

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, which is the sale of water and treatment of wastewater for its customers. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expense for the Authority includes the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

11. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Reclassification

Certain reclassifications have been made to the 2008 financial statements to conform to the current year presentation.

13. Upcoming pronouncements

**GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets."** This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**GASB Statement No. 52 "Land and Other Real Estate Held as Investments by Endowments"** This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2008 and are not expected to have a material effect on the Authority's financial position or results of operations.

**GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments."** Statement 53 is intended to improve how state and local governments report information about derivative instruments financial arrangements used by governments to manage specific risks or make investments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. This statement is not expected to have a material effect on the Authority's financial position or results of operations.

**GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions."** The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2010, with earlier application encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. This statement will have no effect on the Authority's financial position or results of operations.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**GASB Statement No. 55 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"** The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The Board concluded that the GAAP hierarchy should reside in the accounting literature established by the GASB and is issuing this Statement to accomplish that objective. This Statement will make it easier for preparers of state and local government financial statements to identify and apply all relevant guidance. The Authority does not expect that this Statement will result in a change in current practice. The requirements in this statement are effective upon its issuance. This statement will have no effect on the Authority's financial position or results of operations.

**GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards"** The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles for related party transactions, going concern considerations, and Subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. The requirements in this Statement are effective upon its issuance. This statement will have no effect on the Authority's financial position or results of operations.

**Note 2. Stewardship and Accountability – Budgetary Information**

Annual budgets are adopted on a basis consistent with provisions of the Local Government Budget and Fiscal Control Act, which is the modified accrual method of accounting. All annual appropriations lapse at fiscal year end.

In March of each year, the Authority requests information from various departments to project the amount of appropriations for each department so that a budget may be prepared. The proposed budget is presented to the Authority's board for review and approval before the end of April.

Budgeted revenues are reflected by source and budgeted expenses by department. On a periodic basis, as required by changing conditions, the budgeted amounts are amended. The budgeted amounts shown in the supplemental schedules reflect the governing board's amendments through the fiscal year end.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2009 and 2008

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**Note 3. Cash and Cash Equivalents**

Deposits – All of the Authority’s deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority’s agents in the unit’s name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority’s agent in the Authority’s name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the pooling method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method. The Authority has no policy regarding custodial credit risk for deposits.

At June 30, 2009, the Authority’s deposits had a carrying amount of \$8,450,339 and a bank balance of \$8,551,150. Of the bank balance, \$565,586 was covered by federal depository insurance and \$7,985,564 in interest-bearing deposits were covered by collateral held under the pooling method. The Authority had cash on hand of \$1,175 at June 30, 2009.

At June 30, 2008, the Authority’s deposits had a carrying amount of \$7,723,773 and a bank balance of \$8,616,357. Of the bank balance, \$365,592 was covered by federal depository insurance and \$8,250,765 in interest-bearing deposits were covered by collateral held under the pooling method. The Authority had cash on hand of \$1,155 at June 30, 2008.

Cash Equivalents:

At June 30, 2009 and 2008, the Authority’s cash equivalents balances at fair value were as follows:

	2009	2008
The North Carolina Capital Management Trust, a mutual fund	<u>\$ 6,861,093</u>	<u>\$ 7,595,584</u>

*Interest Rate Risk.* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The NCCMT has a weighted-average maturity of 60 days or less as of June 30, 2009, and June 30, 2008.

*Credit Risk.* The Authority has no policy regarding credit risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (“NRSROs”). The Authority’s investment in the NCCMT Cash Portfolio carried a credit rating of AAA by Standard & Poor’s as of June 30, 2009, and June 30, 2008.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Note 4. Capital Assets**

Capital assets activity consists of the following for the years ended June 30, 2009 and 2008:

	July 1, 2008 Beginning Balance	Increases	Decreases	Transfers	June 30, 2009 Ending Balance
Capital assets, not being depreciated:					
Land	\$ 19,994,878	\$ 1,550	\$ -	\$ -	\$19,996,428
Construction in progress	<u>67,263,987</u>	<u>11,892,551</u>	<u>-</u>	<u>(55,999,185)</u>	<u>23,157,353</u>
<b>Total capital assets, not being depreciated</b>	<u>87,258,865</u>	<u>11,894,101</u>	<u>-</u>	<u>(55,999,185)</u>	<u>43,153,781</u>
Capital assets, being depreciated:					
Water treatment and distribution	133,193,210	3,911,946	-	(1,745,683)	135,359,473
Sewer collection and treatment	107,962,214	2,669,515	-	54,220,044	164,851,773
Fixtures and equipment	<u>36,638,622</u>	<u>53,996</u>	<u>44,319</u>	<u>3,524,824</u>	<u>40,173,123</u>
<b>Total capital assets, being depreciated</b>	<u>277,794,046</u>	<u>6,635,457</u>	<u>44,319</u>	<u>55,999,185</u>	<u>340,384,369</u>
Less accumulated depreciation for:					
Water treatment and distribution	33,686,193	3,141,296	-	-	36,827,489
Sewer collection and treatment	30,815,449	3,635,168	-	-	34,450,617
Fixtures and equipment	<u>19,162,298</u>	<u>1,989,459</u>	<u>41,508</u>	<u>-</u>	<u>21,110,249</u>
<b>Total accumulated depreciation</b>	<u>83,663,940</u>	<u>\$ 8,765,923</u>	<u>\$ 41,508</u>	<u>\$ -</u>	<u>92,388,355</u>
<b>Total capital assets, being depreciated, net</b>	<u>194,130,106</u>				<u>247,996,014</u>
<b>Total capital assets, net</b>	<u>\$281,388,971</u>				<u>\$291,149,795</u>

	July 1, 2007 Beginning Balance	Increases	Decreases	June 30, 2008 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 19,994,878	\$ -	\$ -	\$ 19,994,878
Construction in progress	<u>75,157,744</u>	<u>14,899,392</u>	<u>22,793,149</u>	<u>67,263,987</u>
<b>Total capital assets, not being depreciated</b>	<u>95,152,622</u>	<u>14,899,392</u>	<u>22,793,149</u>	<u>87,258,865</u>
Capital assets, being depreciated:				
Water treatment and distribution	114,969,218	18,223,992	-	133,193,210
Sewer collection and treatment	102,197,954	5,764,260	-	107,962,214
Fixtures and equipment	<u>36,343,059</u>	<u>295,563</u>	<u>-</u>	<u>36,638,622</u>
<b>Total capital assets, being depreciated</b>	<u>253,510,231</u>	<u>24,283,815</u>	<u>-</u>	<u>277,794,046</u>
Less accumulated depreciation for:				
Water treatment and distribution	30,926,179	2,760,014	-	33,686,193
Sewer collection and treatment	28,368,432	2,447,017	-	30,815,449
Fixtures and equipment	<u>17,154,154</u>	<u>2,008,144</u>	<u>-</u>	<u>19,162,298</u>
<b>Total accumulated depreciation</b>	<u>76,448,765</u>	<u>\$ 7,215,175</u>	<u>\$ -</u>	<u>83,663,940</u>
<b>Total capital assets, being depreciated, net</b>	<u>177,061,466</u>			<u>194,130,106</u>
<b>Total capital assets, net</b>	<u>\$272,214,088</u>			<u>\$281,388,971</u>

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Note 5. Long-Term Debt**

Long-term debt as of June 30, 2009 and 2008 consists of the following:

	2009	2008
Revenue bonds:		
Revenue bonds payable, Series 2006 Revenue Serial Bonds in the amount of \$15,500,000, issued October 26, 2006, with coupon rates of 4.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$570,987 at June 30, 2009; Revenue bonds payable, Series 2006 Revenue Term Bonds in the amount of \$6,785,000, issued October 26, 2006, with an interest rate of 5.0%, due in full July 2031	\$ 22,300,988	\$ 22,881,554
Revenue and revenue refunding bonds payable, Series 2005 Revenue and Revenue Refunding Bonds, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized premium and deferred refunding loss of \$189,190 at June 30, 2009	18,485,810	18,468,611
Revenue bonds payable, Series 2004A Revenue Bonds in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021, net of unamortized premium of \$505,794 at June 30, 2009; Revenue bonds payable, Series 2004B Revenue Bonds in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (0.32% at June 30, 2009), final maturity July 2029	38,535,794	39,688,239
Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss of \$365,701 at June 30, 2009	7,054,299	7,882,056
Revenue and revenue refunding bonds payable, Series 2001 Revenue and Revenue Refunding Bonds, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding loss of \$50,500 at June 30, 2009	19,530,500	21,153,656
Revenue and revenue refunding bonds payable, Series 1999 Revenue and Revenue Refunding Bonds, issued April 15, 1999, with coupon rates of 4.0% to 5.25%, final maturity July 2009, net of unamortized premium of \$3,841 at June 30, 2009	708,841	1,387,683
	106,616,232	111,461,799
Less current maturities:		
Bonds payable, net of unamortized premiums and discounts and deferred refunding gains and losses	4,840,566	4,845,566
Long-term portion	<u>\$101,775,666</u>	<u>\$106,616,233</u>

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Note 5. Long-Term Debt (Continued)**

Obligations under capital lease:

Capitalized equipment lease obligation due in annual installments of \$24,264 which includes interest at 14.45% through February 1, 2013	\$ 67,521	\$ 80,991
Less current maturities	<u>15,504</u>	<u>13,470</u>
Long-term portion	<u>\$ 52,017</u>	<u>\$ 67,521</u>

Bond payable maturities are as follows:

<u>Fiscal Year</u>	<u>Maturities</u>	<u>Amortization of Premiums and Deferred Refunding Losses</u>	<u>Total</u>	<u>Interest</u>
2010	\$ 4,835,000	\$ (5,566)	\$ 4,840,566	\$ 4,607,326
2011	5,230,000	(1,726)	5,231,726	4,424,113
2012	5,450,000	(1,726)	5,451,726	4,205,413
2013	5,510,000	(1,726)	5,511,726	3,967,338
2014	5,295,000	(1,726)	5,296,726	3,741,076
2015-2019	25,830,000	(165,354)	25,995,354	15,167,577
2020-2024	23,515,000	(207,767)	23,722,767	9,331,739
2025-2029	23,480,000	(138,213)	23,618,213	3,988,113
2030-2034	<u>6,895,000</u>	<u>(52,428)</u>	<u>6,947,428</u>	<u>386,550</u>
Total	<u>\$106,040,000</u>	<u>\$ (576,232)</u>	<u>\$106,616,232</u>	<u>\$49,819,245</u>

Capital lease maturities are as follows:

<u>Fiscal Year</u>	<u>Maturities</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 15,504	\$ 8,760	\$ 24,264
2011	17,858	6,366	24,264
2012	20,662	3,602	24,264
2013	<u>13,497</u>	<u>658</u>	<u>14,155</u>
Total	<u>\$ 67,521</u>	<u>\$ 19,386</u>	<u>\$ 86,947</u>

In 2005, the Authority issued \$18,675,000, net of a discount of \$257,985, in Series 2005 Revenue and Revenue Refunding Bonds to provide for a partial refunding of Series 2001 and Series 1999 Revenue Bonds. The Authority irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the Series 2001 and Series 1999 Revenue Bonds as they become due. The par value of the defeased Series 2001 and Series 1999 Revenue Bonds at June 30, 2009 was \$18,325,000.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Note 5. Long-Term Debt (Continued)**

In 1985, the Authority defeased Series 1977A Revenue Bonds by placing the proceeds of new bonds, Series 1985A Revenue Bonds, in an irrevocable trust to provide for all future debt service payments on the old bonds. The gain of \$1,517,000, resulting from the refunding is being amortized over the life of the new issue. In addition to the amounts held in the trust, the trustee also has a security interest in the revenues of the Authority, after provisions have been made for the payment of current expenses, as defined in the Bond Order dated March 7, 1985. The par value of the defeased Series 1977A Revenue Bonds at June 30, 2009 was \$950,000.

Long-term liability activity for the years ended June 30, 2009 and 2008 are as follows:

	July 1, 2008 Beginning Balance	Additions	Reductions	June 30, 2009 Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 110,880,000	\$ -	\$ 4,840,000	\$ 106,040,000	\$ 4,835,000
Less deferred amounts:					
For issuance premiums	2,417,612	-	190,138	2,227,474	190,138
For issuance discounts and Deferred refunding	(1,835,813)	-	(184,572)	(1,651,242)	(184,572)
Capital Lease	80,991	-	13,470	67,561	15,504
<b>Total long-term debt</b>	<u>\$ 111,542,790</u>	<u>\$ -</u>	<u>\$ 4,859,036</u>	<u>\$ 106,683,753</u>	<u>\$ 4,856,070</u>

	July 1, 2007 Beginning Balance	Additions	Reductions	June 30, 2008 Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 114,685,000	\$ -	\$ 3,805,000	\$ 110,880,000	\$ 4,840,000
Less deferred amounts:					
For issuance premiums	2,607,750	-	190,138	2,417,612	190,138
For issuance discounts and Deferred refunding	(2,020,386)	-	(184,573)	(1,835,813)	(184,572)
Capital Lease	-	86,043	5,052	80,991	13,430
<b>Total long-term debt</b>	<u>\$ 115,272,364</u>	<u>\$ 86,043</u>	<u>\$ 3,815,617</u>	<u>\$ 111,542,790</u>	<u>\$ 4,858,996</u>

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$106,616,232 in revenue bonds issued in 1999, 2001, 2003, 2004, 2005 and 2006. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Principal and interest on the bonds are payable through 2031, solely from the water and sewer customer net revenues. Annual principal and interest on the bonds are expected to require approximately 65 percent of such net revenues. Principal and interest paid for in the years ended June 30, 2009 and 2008 were \$9,049,132 and 8,514,126, respectively.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 6. Pension Plan Obligations**

Local Governmental Employees' Retirement System

*Plan description:* The Authority contributes to the statewide Local Governmental Employees' Retirement System ("LGERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding policy:* Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 4.88% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$333,736, \$341,694, and \$332,113 respectively. The contributions made by the Authority equaled the required contributions for each year.

Other Post Employment Benefits (OPEB)

The Authority has implemented GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, prospectively (i.e., setting the net OPEB obligation to zero in the year of implementation).

*Plan description:* The Authority administers a single-employer defined benefit plan (the OPEB plan) that provides health and life insurance benefits to eligible retirees. Employees who meet any of the retirement options available through LGERS and retire with 30 or more years of service, or is at least age 60 with at least 10 years of service may continue in the Authority's group health plan until death. Eligible retirees are also provided life insurance coverage of \$5,000. Retiree cost sharing is as follows: For retirees age 60 with 10 to 15 years of service, the retiree pays 50% of the retiree premium. For retirees age 60 with 15 to 20 years of service, the retiree pays 25% of the retiree premium. For retirees age 60 with 20 or more years of service, the retiree pays 0% of the retiree premium. There is no spousal coverage provided. The Authority may amend the benefit provisions at any time. A separate stand-alone report is not issued.

All active full-time employees are eligible for membership. At July 1, 2007, the plan membership consisted of:

Members:	
Inactive	14
Active	<u>136</u>
Total	<u>150</u>

*Funding policy:* The Authority plan members pays their share of the cost of coverage (premiums) for health car benefits provided to qualified retirees. The Authority has chosen to fund the plan benefits on a pay-as-you-go basis. For the current year the Authority contributed \$151,000 or 1.6% of the annual covered payroll.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Note 6. Pension Plan Obligations (continued)**

*Basis of accounting:* Postemployment expenses are made from the General Fund, which is maintained on the accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

*Annual OPEB Cost and Net OPEB Obligation.* The Authority's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the healthcare benefits:

Employer annual required contribution	\$ 889,000
Interest paid on OPEB obligation	-
Annual OPEB cost	<u>889,000</u>
Employer contributions made for current fiscal year	<u>151,000</u>
Increase in net OPEB obligation	738,000
Net OPEB obligation beginning of fiscal year	-
Net OPEB obligation end of fiscal year	<u><u>\$ 738,000</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

Fiscal Year End	Annual Plan Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation End of Year
June 30, 2009	\$889,000	17.00%	\$738,000

*Funded Status and Funding Progress.* As of July 1, 2007, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$9,918,000. The covered payroll (annual payroll of active employees covered by the plan) was \$9,437,500, and the ratio of UAAL to the covered payroll was 105.1 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ORANGE WATER AND SEWER AUTHORITY  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

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**Note 7. Risk Management and Commitments**

Risk management: The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has property, general liability, workers' compensation, and employee health coverages. Claims have not exceeded coverage in any of the past three fiscal years. The Authority currently does not carry flood insurance.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$200,000. The remaining employees that have access to funds are bonded under a blanket bond for \$200,000.

Commitments: The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$2,135,963 at June 30, 2009.

**Note 8. Net Assets**

At June 30, 2009 and 2008, the Board of Directors had approved the use of the unrestricted net assets for the following purposes:

	<u>2009</u>	<u>2008</u>
Operating reserve	\$ 4,601,988	\$ 4,492,494
Capital projects	<u>10,538,987</u>	<u>1,501,225</u>
	<u>\$ 15,140,975</u>	<u>\$ 5,993,719</u>

ORANGE WATER AND SEWER AUTHORITY  
**REQUIRED SUPPLEMENTARY INFORMATION**  
 Other Postemployment Benefits (OPEB) Plan  
 June 30, 2009 and 2008

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Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	UAAL as % Of Covered Payroll (3)/(5)
7/1/2007	\$ -	\$ 9,918,000	\$ 9,918,000	0.0	\$ 9,437,500	105.1%

Schedule of Employer Contributions:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Liability / (Asset)
6/30/2009	\$ 889,000	\$ 151,000	17.00%	\$ 738,000

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Note 1 - Actuarial Information**

Actuarial assumptions:

Investment rate of return: 4.5% (includes inflation of 3.75%)  
 Health care cost trend rate: 9.00% - 5.00%

Summary actuarial information:

Valuation date: July 1, 2007  
 Actuarial cost method: Entry Age Normal  
 Amortization method: Level percent  
 Asset valuation method: Market value

ORANGE WATER AND SEWER AUTHORITY  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCURAL BASIS)**  
Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Operating revenues</b>				
Water	\$ 15,938,688	\$ 15,938,688	\$ 15,364,026	\$ (574,662)
Sewer	13,171,544	13,171,544	12,798,394	(373,150)
Service initiation fees	148,952	148,952	141,355	(7,597)
Other	1,146,572	1,146,572	1,239,202	92,630
<b>Total operating revenues</b>	<u>30,405,756</u>	<u>30,405,756</u>	<u>29,542,977</u>	<u>(862,779)</u>
<b>Nonoperating revenues</b>				
Interest income	196,461	196,461	80,343	(116,118)
Customer fees	1,965,465	1,965,465	2,498,459	532,994
Grants and contributions	7,084,706	7,084,706	1,577,049	(5,507,657)
Contributions in aid of construction	-	-	12,916,938	12,916,938
<b>Total nonoperating revenues</b>	<u>9,246,632</u>	<u>9,246,632</u>	<u>17,072,789</u>	<u>7,826,157</u>
<b>Total revenues</b>	<u>39,652,388</u>	<u>39,652,388</u>	<u>46,615,766</u>	<u>6,963,378</u>
<b>Expenditures</b>				
Water supply and treatment				
Salaries and wages	635,827	657,827	650,724	7,103
Fringe benefits	248,608	248,608	234,617	13,991
Chemicals	1,077,729	1,171,729	1,171,618	111
Materials and supplies	28,490	28,490	22,824	5,666
Utilities	415,113	415,113	391,650	23,463
Maintenance	10,843	10,843	30,413	(19,570)
Professional services	53,700	85,700	86,876	(1,176)
Insurance	60,200	60,200	61,765	(1,565)
Communication	870	870	402	468
Education and development	9,310	9,310	7,050	2,260
Miscellaneous	9,926	9,926	7,690	2,236
<b>Total water supply and treatment</b>	<u>2,550,616</u>	<u>2,698,616</u>	<u>2,665,629</u>	<u>32,987</u>

ORANGE WATER AND SEWER AUTHORITY  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCURAL BASIS) (CONTINUED)**  
Year Ended June 30, 2009

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Expenditures (continued)</b>				
Water distribution				
Salaries and wages	1,199,166	1,165,166	\$ 1,115,425	\$ 49,741
Fringe benefits	526,642	526,642	472,589	54,053
Materials and supplies	75,700	75,700	71,612	4,088
Utilities	235,506	203,506	201,772	1,734
Maintenance	576,600	482,600	408,689	73,911
Professional services	20,000	20,000	16,900	3,100
Insurance	8,080	8,080	6,607	1,473
Communication	400	400	370	30
Printing and reproduction	1,400	1,400	25	1,375
Education and development	11,000	11,000	7,967	3,033
Miscellaneous	2,600	2,600	2,450	150
Construction credit	(93,830)	(93,830)	(144,175)	50,345
Total water distribution	<u>2,563,264</u>	<u>2,403,264</u>	<u>2,160,231</u>	<u>243,033</u>
Sewer treatment				
Salaries and wages	765,393	765,393	736,383	29,010
Fringe benefits	291,628	291,628	277,983	13,645
Chemicals	784,277	1,137,277	1,224,745	(87,468)
Materials and supplies	94,431	94,431	54,709	39,722
Utilities	932,792	1,022,792	1,011,462	11,330
Maintenance	81,630	81,630	64,488	17,142
Professional services	41,500	41,500	17,355	24,145
Insurance	77,777	77,777	77,205	572
Communication	1,200	1,200	701	499
Education and development	8,250	8,250	4,467	3,783
Miscellaneous	32,000	32,000	18,340	13,660
Total sewer treatment	<u>3,110,878</u>	<u>3,553,878</u>	<u>3,487,838</u>	<u>66,040</u>

ORANGE WATER AND SEWER AUTHORITY  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCURAL BASIS) (CONTINUED)**  
Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures (continued)</b>				
Sewer collections				
Salaries and wages	\$ 605,466	\$ 507,466	\$ 484,699	\$ 22,767
Fringe benefits	261,554	216,655	205,930	10,725
Chemicals	265,000	42,000	38,258	3,742
Materials and supplies	60,000	49,000	48,612	388
Utilities	120,200	120,200	123,206	(3,006)
Maintenance	310,000	179,000	165,870	13,130
Professional services	1,400	1,400	-	1,400
Insurance	7,582	7,582	6,740	842
Communication	1,000	1,000	269	731
Printing and reproduction	1,000	1,000	195	805
Education and development	10,750	6,750	6,623	127
Miscellaneous	11,000	3,000	1,091	1,909
Construction credit	-	-	(46,468)	46,468
Total sewer collections	<u>1,654,952</u>	<u>1,135,053</u>	<u>1,035,025</u>	<u>100,028</u>
General and administrative				
Salaries and wages	2,602,383	2,576,582	2,508,312	68,270
Fringe benefits	884,570	889,571	933,798	(44,227)
Materials and supplies	69,116	69,116	48,759	20,357
Utilities	177,000	177,000	175,013	1,987
Maintenance	237,900	237,900	233,679	4,221
Professional services	547,740	617,240	611,600	5,640
Insurance	36,000	36,000	39,017	(3,017)
Communication	83,337	75,837	32,413	43,424
Printing and reproduction	10,425	10,425	11,398	(973)
Education and development	57,500	45,700	33,162	12,538
Miscellaneous	137,573	108,173	74,652	33,521
Construction credit	(71,702)	(71,702)	(134,284)	62,582
Total general and administrative	<u>4,771,842</u>	<u>4,771,842</u>	<u>4,567,519</u>	<u>204,323</u>

ORANGE WATER AND SEWER AUTHORITY  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCURAL BASIS) (CONTINUED)**  
Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures (continued)</b>				
Customer relations				
Salaries and wages	\$ 286,256	\$ 286,256	\$ 285,318	\$ 938
Fringe benefits	104,497	104,497	105,251	(754)
Materials and supplies	3,000	3,000	8,974	(5,974)
Professional services	78,000	78,000	67,034	10,966
Communication	100,000	100,000	111,837	(11,837)
Printing and reproduction	3,000	3,000	1,211	1,789
Education and development	3,000	3,000	5,302	(2,302)
Miscellaneous	80,000	80,000	13,165	66,835
Total customer relations	<u>657,753</u>	<u>657,753</u>	<u>598,092</u>	<u>59,661</u>
Maintenance				
Salaries and wages	709,215	709,215	665,295	43,920
Fringe benefits	262,477	262,476	240,199	22,277
Materials and supplies	41,012	41,012	34,839	6,173
Utilities	1,000	1,000	612	388
Maintenance	942,481	1,094,781	1,167,959	(73,178)
Professional services	29,000	29,000	-	29,000
Insurance	16,499	16,499	16,737	(238)
Communication	1,000	1,000	1,792	(792)
Education and development	12,860	12,860	3,340	9,520
Miscellaneous	5,000	5,000	4,265	735
Total maintenance	<u>2,020,544</u>	<u>2,172,843</u>	<u>2,135,038</u>	<u>37,805</u>
Laboratory				
Salaries and wages	424,428	406,028	398,240	7,788
Fringe benefits	160,692	153,692	149,979	3,713
Materials and supplies	239,465	201,465	198,233	3,232
Maintenance	47,940	47,940	53,689	(5,749)
Professional services	12,000	12,000	10,777	1,223
Insurance	7,975	7,975	8,109	(134)
Communication	11,170	11,170	11,754	(584)
Education and development	6,000	6,000	4,334	1,666
Miscellaneous	2,900	2,900	2,655	245
Total laboratory	<u>912,570</u>	<u>849,170</u>	<u>837,770</u>	<u>11,400</u>

ORANGE WATER AND SEWER AUTHORITY  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCURAL BASIS) (CONTINUED)**  
Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures (continued)</b>				
Debt service				
Bonded debt service	\$ 9,465,326	\$ 9,465,326	\$ 9,156,718	\$ 308,608
Capital outlay	13,902,050	13,902,050	17,631,186	(3,729,136)
<b>Total expenditures</b>	<u>41,609,795</u>	<u>41,609,795</u>	<u>44,275,046</u>	<u>(2,665,251)</u>
<b>Excess (deficiency) of revenues     over (under) expenditures</b>	<u>(1,957,407)</u>	<u>(1,957,407)</u>	<u>2,340,720</u>	<u>4,298,127</u>
<b>Other sources</b>				
Appropriated fund balance	<u>1,957,407</u>	<u>1,957,407</u>	-	<u>\$ (1,957,407)</u>
<b>Excess (deficiency) of revenues     over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>2,340,720</u>	<u>\$ 2,340,720</u>
Reconciliation of modified accrual to full accrual basis				
Principal payments on bonded debt			4,840,000	
Capital interest			898,372	
Change in interest accrual for bonded debt			113,154	
Depreciation and amortization			(8,765,924)	
Other post employment benefits			(738,000)	
Amortization of bond expense and patent			(83,338)	
Capital outlay			17,631,186	
<b>Net income - accrual basis</b>			<u>\$ 16,236,170</u>	

Orange Water & Sewer Authority  
**SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS**  
From Inception Through June 30, 2009

	Project Budget	Cumulative Totals to June 30, 2009	Unexpended Balance as of June 30, 2009
<b>Raw water supply sources:</b>			
Revenues, general fund	<u>\$ 329,562</u>	<u>\$ 303,138</u>	<u>\$ 26,424</u>
<b>Expenditures:</b>			
Jordan Lake raw water supply intake and pumping facility	\$ 47,558	\$ 30,196	\$ 17,362
Watershed preservation	-	4,710	(4,710)
Stone quarry acquisition	231,545	205,160	26,385
University Lake pump station improvements	12,067	31,742	(19,675)
Stone quarry pump station	375	375	-
Raw water security improvements	38,017	30,955	7,062
<b>Total expenditures</b>	<u>\$ 329,562</u>	<u>\$ 303,138</u>	<u>\$ 26,424</u>
<b>Water treatment:</b>			
Revenues, general fund	<u>\$ 761,983</u>	<u>\$ 536,452</u>	<u>\$ 225,531</u>
<b>Expenditures:</b>			
Water treatment plant rehabilitation projects	\$ 324,000	\$ 249,486	\$ 74,514
Water treatment plant security improvements	152,983	84,348	68,635
Water treatment plant finished water pumping improvements	-	(65,175)	65,175
Sodium Hypochlorite Facility Tanks Improvements	205,000	191,640	13,360
Sodium Hypochlorite Facility Chemical Feed System	60,000	58,145	1,855
Water Treatment Plant Filter Influent Repairs	20,000	18,008	1,992
<b>Total expenditures</b>	<u>\$ 761,983</u>	<u>\$ 536,452</u>	<u>\$ 225,531</u>
<b>Finished water pumping:</b>			
Revenues, general fund	<u>\$ 1,249,718</u>	<u>\$ 1,103,193</u>	<u>\$ 146,525</u>
<b>Expenditures:</b>			
Booster pump station at I-40	\$ 1,074,718	\$ 1,088,180	\$ (13,462)
Booster pump station at Barbee Chapel Road	175,000	15,013	159,987
<b>Total expenditures</b>	<u>\$ 1,249,718</u>	<u>\$ 1,103,193</u>	<u>\$ 146,525</u>

Orange Water & Sewer Authority  
**SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS**  
From Inception Through June 30, 2009

	Project Budget	Cumulative Totals to June 30, 2009	Unexpended Balance as of June 30, 2009
<b>Finished water storage:</b>			
Revenues, general fund	\$ -	\$ (3,097)	\$ 3,097
<b>Expenditures:</b>			
Finished water storage security improvements	\$ -	\$ (3,097)	\$ 3,097
<b>Total expenditures</b>	<b>\$ -</b>	<b>\$ (3,097)</b>	<b>\$ 3,097</b>
<b>Water transmission &amp; distribution:</b>			
Revenues, general fund	\$ 1,338,822	\$ 1,371,945	\$ (33,123)
<b>Expenditures:</b>			
Water main - road improvement projects	\$ 197,200	\$ 197,196	\$ 4
Water line rehabilitation, replacement projects	312,000	296,294	15,706
Reinforcement projects	95,000	75,208	19,792
Cleveland Drive water main replacement	440,622	527,173	(86,551)
Cameron Avenue water line replacement	69,000	63,231	5,769
Water distribution system hydraulic model update	225,000	212,843	12,157
<b>Total expenditures</b>	<b>\$ 1,338,822</b>	<b>\$ 1,371,945</b>	<b>\$ (33,123)</b>
<b>Wastewater collection lines:</b>			
Revenues, general fund	\$ 10,626,000	\$ 9,178,471	\$ 1,447,529
<b>Expenditures:</b>			
Bolin Creek interceptor (Phase III)	\$ 1,002,000	\$ 337,974	\$ 664,026
Morgan Creek interceptor	457,000	999,301	(542,301)
Morgan Creek Basin - rehabilitation and replacement projects	-	(5,151)	5,151
Service area sewer line rehabilitation and replacement projects	1,127,000	894,919	232,081
Meeting of the waters interceptor	8,040,000	6,951,428	1,088,572
<b>Total expenditures</b>	<b>\$ 10,626,000</b>	<b>\$ 9,178,471</b>	<b>\$ 1,447,529</b>

Orange Water & Sewer Authority  
**SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS**  
From Inception Through June 30, 2009

	Project Budget	Cumulative Totals to June 30, 2009	Unexpended Balance as of June 30, 2009
<b>Waste water pumping stations &amp; forcemains:</b>			
Revenues, general fund	<u>\$ 2,446,000</u>	<u>\$ 1,753,477</u>	<u>\$ 692,523</u>
<b>Expenditures:</b>			
Pump station improvements	\$ 226,000	\$ 119,462	\$ 106,538
Heritage Hills pump station and force main replacement	599,000	581,147	17,853
Oaks I, Cleland Drive pump station phase out project	1,621,000	1,052,868	568,132
<b>Total expenditures</b>	<u>\$ 2,446,000</u>	<u>\$ 1,753,477</u>	<u>\$ 692,523</u>
<b>Wastewater treatment &amp; disposal:</b>			
Revenues, general fund	<u>\$ 13,155,000</u>	<u>\$ 12,076,596</u>	<u>\$ 1,078,404</u>
<b>Expenditures:</b>			
Mason Farm wastewater treatment plant 18.5 MGD upgrade and expansion	100,000	253	99,747
Mason Farm biosolids dewatering facilities	1,960,000	2,033,581	(73,581)
Mason Farm wastewater treatment plant - flood protection enhancement	50,000	-	50,000
Mason Farm wastewater treatment plant rehabilitation and improvement project	328,000	229,067	98,933
Mason Farm wastewater treatment plant digester system upgrades	127,000	196,903	(69,903)
Mason Farm wastewater treatment plant odor improvements	1,339,000	1,209,855	129,145
Reclaimed water treatment, pumping and storage facilities	5,902,000	5,258,132	643,868
Reclaimed water transmission system	3,349,000	3,148,805	200,195
<b>Total expenditures</b>	<u>\$ 13,155,000</u>	<u>\$ 12,076,596</u>	<u>\$ 1,078,404</u>
<b>Information services:</b>			
Revenues, general fund	<u>\$ 275,000</u>	<u>\$ 269,525</u>	<u>\$ 5,475</u>
<b>Expenditures:</b>			
Information services	\$ 275,000	\$ 269,525	\$ 5,475
<b>Total expenditures</b>	<u>\$ 275,000</u>	<u>\$ 269,525</u>	<u>\$ 5,475</u>

ORANGE WATER AND SEWER AUTHORITY  
**Net Assets by Components**  
**Last Seven Fiscal Years**  
(accrual basis of accounting)  
(Unaudited)

	Fiscal Year						
	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 184,466,042	\$ 177,287,377	\$ 161,812,115	\$ 160,813,755	\$ 137,441,321	\$ 110,634,726	\$ 136,790,615
Restricted for maintenance reserve and power fund	1,226,604	1,168,081	1,127,192	1,894,497	2,320,261	265,052	4,452,759
Restricted for future capital projects		-	-	-	16,794,642	34,552,532	6,287,943
Restricted for debt service	6,114	154,388	185,258	31,088	-	-	-
Unrestricted	15,140,975	5,993,719	14,546,839	6,611,972	7,373,853	15,468,674	6,076,872
	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>	<u>\$ 160,920,984</u>	<u>\$ 153,608,189</u>

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

ORANGE WATER AND SEWER AUTHORITY  
**Changes in Net Assets**  
**Last Seven Fiscal Years**  
(accrual basis of accounting)  
(Unaudited)

	Fiscal Year						
	2009	2008	2007	2006	2005	2004	2003
<b>Operating revenues</b>							
Water	\$ 15,364,026	\$ 16,378,833	\$ 14,218,387	\$ 13,946,421	\$ 12,489,800	\$ 11,873,860	\$ 10,394,529
Sewer	12,798,394	11,046,437	10,272,920	9,682,210	8,563,004	8,619,485	7,607,718
Service initiation fees	141,355	169,603	142,086	153,670	134,958	132,294	97,660
Other	1,233,515	1,199,220	780,178	649,081	703,905	530,853	573,057
<b>Total operating revenues</b>	<u>29,537,290</u>	<u>28,794,093</u>	<u>25,413,571</u>	<u>24,431,382</u>	<u>21,891,667</u>	<u>21,156,492</u>	<u>18,672,964</u>
<b>Operating expenses</b>							
Water supply and treatment	2,665,629	2,441,028	2,261,394	2,159,244	1,935,704	1,822,522	1,885,679
Water distribution	2,160,231	2,275,756	1,962,980	1,710,117	1,917,141	1,733,384	1,781,525
Sewer treatment	3,487,838	2,981,891	2,865,782	3,042,830	2,080,670	1,954,191	1,973,766
Sewer collections	1,035,025	1,134,682	1,539,591	1,352,661	1,342,978	1,329,066	1,205,400
General and administrative	4,567,519	4,467,944	4,428,491	3,809,200	3,689,846	3,468,158	3,458,288
Customer relations	598,092	672,147	707,614	966,972	961,862	830,284	798,852
Maintenance	2,135,038	1,881,395	1,979,957	1,860,938	1,600,231	1,623,525	1,538,062
Lab	837,770	788,628	890,108	821,955	780,707	722,984	651,825
Depreciation and amortization	8,765,924	7,215,175	6,950,774	6,871,350	6,538,782	6,312,316	5,995,331
	738,000	-	-	-	-	-	-
<b>Total operating expenses</b>	<u>26,991,066</u>	<u>23,858,646</u>	<u>23,586,691</u>	<u>22,595,267</u>	<u>20,847,921</u>	<u>19,796,430</u>	<u>19,288,728</u>
<b>Operating income (loss)</b>	<u>2,546,224</u>	<u>4,935,447</u>	<u>1,826,880</u>	<u>1,836,115</u>	<u>1,043,746</u>	<u>1,360,062</u>	<u>(615,764)</u>
<b>Nonoperating revenues (expenses):</b>							
Customer fees	2,498,459	1,995,415	2,514,450	2,308,651	1,872,820	2,716,555	1,962,517
Investment adjustment	80,343	584,031	995,354	742,010	821,194	211,708	337,442
Interest expense	(3,305,193)	(3,832,320)	(4,361,911)	(2,724,951)	(3,140,164)	(1,216,166)	(1,799,578)
Amortization of bond expense and patent	(83,338)	(69,940)	(96,898)	(141,579)	(115,063)	(163,362)	(192,634)
Other	5,687	2,865	16,431	(58,846)	(39,569)	44,588	(106,101)
<b>Income (loss) before contributions</b>	<u>1,742,182</u>	<u>3,615,498</u>	<u>894,306</u>	<u>1,961,400</u>	<u>442,964</u>	<u>2,953,385</u>	<u>(414,118)</u>
<b>Capital contributions</b>							
Capital grants and contributions	1,577,049	926,504	650,097	153,232	336,404	537,571	-
Contribution in aid of construction	12,916,939	2,390,159	6,775,689	3,306,603	2,229,725	3,821,839	1,817,642
<b>Total capital contributions</b>	<u>14,493,988</u>	<u>3,316,663</u>	<u>7,425,786</u>	<u>3,459,835</u>	<u>2,566,129</u>	<u>4,359,410</u>	<u>1,817,642</u>
<b>Increase in net assets</b>	<u>16,236,170</u>	<u>6,932,161</u>	<u>8,320,092</u>	<u>5,421,235</u>	<u>3,009,093</u>	<u>7,312,795</u>	<u>1,403,524</u>
<b>Net assets</b>							
Beginning	184,603,565	177,671,404	169,351,312	163,930,077	160,920,984	153,608,189	152,204,665
Ending	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>	<u>\$ 160,920,984</u>	<u>\$ 153,608,189</u>

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

**ORANGE WATER AND SEWER AUTHORITY**  
**Water Processed and Wastewater Treated**  
**(thousands of gallons)**  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year Ended June 30	Water Processed and Pumped to System	Portion of Processed Water Pumped to Hillsborough	Wastewater Treated
2000	3,247,807	1,337	3,162,218
2001	3,418,741	-	3,107,328
2002	3,822,000	-	2,922,000
2003	2,945,900	-	2,955,127
2004	3,067,524	-	2,831,033
2005	3,053,404	-	2,982,831
2006	3,142,494	-	2,721,662
2007	3,126,917	-	2,854,787
2008	3,002,669	-	2,701,000
2009	2,915,405	-	2,889,705

Source: Orange Water and Sewer Authority's Records

ORANGE WATER AND SEWER AUTHORITY  
**Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer**  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year Ended June 30	Customer Estimate	Net Operating Revenues	Debt Service Requirements	Net Bonded Debt	Ratio of Net Revenues to Debt Service Requirements	Net Bonded Debt Per Customer
2000	16,963	\$ 7,777,972	\$ 3,463,240	\$ 39,355,000	2.25	\$ 2,320
2001	17,696	7,535,344	3,821,600	37,365,000	1.97	2,111.49
2002	18,436	10,785,421	5,527,785	65,845,000	1.95	3,571.54
2003	18,844	7,573,425	5,970,183	63,570,000	1.27	3,373.49
2004	19,229	10,645,229	5,936,269	101,770,000	1.79	5,292.53
2005	19,467	10,236,973	7,317,151	81,075,000	1.40	4,164.74
2006	19,687	11,758,126	8,073,572	76,740,000	1.46	3,898.00
2007	19,554	12,287,458	8,268,245	114,685,000	1.49	5,865.04
2008	19,998	14,732,933	9,535,182	110,880,000	1.55	5,545.00
2009	20,137	13,813,299	9,027,729	106,040,000	1.53	5,266.00

Note: Before fiscal year ended June 30, 2001, net operating revenues were calculated as operating income before depreciation and amortization plus investment income. In 2002, the Authority's new bond order defined net operating revenues as income before contributions plus depreciation, amortization and interest expense.

ORANGE WATER AND SEWER AUTHORITY  
**Principal Water and Sewer Customers**  
Year Ended June 30, 2009  
(Unaudited)

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	<u>Percent of Water Sales 2009</u>
University of North Carolina at Chapel Hill	*30%
Triangle Communities (Apartments)	4%
Chapel Hill - Carrboro City Schools	1%
Granville Towers (student housing)	<1%
The Villages Apartments	<1%
Abbey Court Condominiums	<1%
Carol Woods Retirement Community	<1%
Town of Chapel Hill	<1%
Foxcroft Apartments	<1%
University Mall	<1%

\*Approximate

Source: Orange Water and Sewer Authority Records

**ORANGE WATER AND SEWER AUTHORITY**  
**Town of Chapel Hill, NC Property Tax Levies and Collections**  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes
		Amount	Percent of Original Levy		Amount	Percentage of Adjusted Levy	
2000	\$ 16,598,182	\$ 16,453,207	99.13%	*	*	*	*
2001	17,594,559	17,466,542	99.27%	*	*	*	*
2002	20,417,001	20,271,201	99.29%	*	*	*	*
2003	23,067,472	22,919,205	99.36%	*	*	*	*
2004	23,775,375	23,653,530	99.49%	\$ 111,079	\$ 23,764,609	99.95%	*
2005	25,615,621	25,480,324	99.47%	110,800	25,591,124	99.90%	*
2006	27,718,753	27,578,410	99.49%	116,297	27,694,707	99.91%	377,589 (1)
2007	28,558,565	28,409,166	99.48%	108,108	28,517,274	99.86%	21,087
2008	30,412,485	30,240,782	99.44%	115,691	30,356,473	99.82%	45,041
2009	33,972,050	33,779,873	99.43%	-	33,779,873	99.43%	192,366

\*Data not available. The Town contracts with the counties to maintain the tax records and must rely on the records provided.

Notes:

(1) This represents the total delinquent taxes for years 2005 and prior.

**ORANGE WATER AND SEWER AUTHORITY**  
**Town of Chapel Hill, NC Assessed Value and Actual Value of Taxable Property**  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Combined Real Property	Personal Property	Public Service Companies (3)	Total Assessed Value	Total Direct Tax Rate (4)	Estimated Actual Taxable Value (5)	Ratio of Assessed Value to Estimated Actual Value (6)
2000	*	*	\$ 2,501,345,508	\$ 381,872,039	\$ 60,948,410	\$ 2,944,165,957	0.563	\$ 3,546,333,362	83.02%
2001	*	*	2,589,768,417	388,087,936	61,660,255	3,039,516,608	0.578	3,145,846,210	96.62%
2002 (2)	*	*	3,556,294,528	403,959,196	60,873,428	4,021,127,152	0.504	4,459,990,186	90.16%
2003	*	*	3,688,289,625	415,023,471	63,868,306	4,167,181,402	0.553	4,725,767,070	88.18%
2004	*	*	3,791,942,402	455,906,761	57,587,809	4,305,436,972	0.553	5,139,473,525	83.77%
2005	*	*	3,918,233,860	482,128,300	57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%
2006 (1)	\$ 3,956,681,069	\$ 783,355,893	4,740,036,962	498,524,879	60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%
2007	3,640,445,489	1,249,997,134	4,890,442,623	520,961,320	61,554,945	5,472,958,888	0.522	6,098,683,851	89.74%
2008	3,825,506,198	1,313,540,280	5,139,046,478	460,567,284	60,142,623	5,659,756,385	0.522	6,306,837,960	89.74%
2009	3,945,477,182	1,354,733,971	5,300,211,153	471,708,077	63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%

\*The breakdown between residential and commercial property is not available for fiscal years prior to 2006.

Notes:

- (1) Revaluation year
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue.  
These amounts include both real and personal property
- (4) Per \$100 of value. Includes taxes for general fund and transportation fund.
- (5) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (6) Source is the Property Tax Division of the North Carolina Department of Revenue.

ORANGE WATER AND SEWER AUTHORITY  
**Town of Chapel Hill, NC Direct and Overlapping Property Tax Rates (Per \$100 of Assessed Value)**  
 Last Ten Fiscal Years  
 (unaudited)

	Years Taxes Payable									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chapel Hill Within Orange County:			*				*			
<u>Town Direct Rates:</u>										
General Fund	0.524	0.535	0.461	0.510	0.502	0.516	0.474	0.474	0.474	0.423
Transportation	0.039	0.043	0.043	0.043	0.051	0.059	0.048	0.048	0.048	0.048
Downtown Service District	0.062	0.062	0.062	0.062	0.062	0.062	0.053	0.090	0.090	0.090
<u>Overlapping Rates:</u>										
Orange County	0.919	0.929	0.805	0.845	0.880	0.868	0.843	0.903	0.950	0.998
Chapel Hill- Carrboro School District	0.220	0.220	0.202	0.192	0.200	0.200	0.183	0.189	0.204	0.230
<b>Total</b>	<b>1.764</b>	<b>1.789</b>	<b>1.573</b>	<b>1.652</b>	<b>1.695</b>	<b>1.705</b>	<b>1.601</b>	<b>1.704</b>	<b>1.766</b>	<b>1.899</b>
Chapel Hill Within Durham County:										
<u>Town Direct Rates:</u>										
General Fund	0.524	0.535	0.504	0.510	0.502	0.516	0.474	0.474	0.474	0.423
Transportation	0.039	0.043	0.043	0.043	0.051	0.059	0.048	0.048	0.048	0.048
<u>Overlapping Rates:</u>										
Durham County	0.930	0.930	0.729	0.753	0.763	0.790	0.809	0.809	0.834	0.708
<b>Total</b>	<b>1.493</b>	<b>1.508</b>	<b>1.276</b>	<b>1.306</b>	<b>1.316</b>	<b>1.365</b>	<b>1.331</b>	<b>1.331</b>	<b>1.356</b>	<b>1.289</b>

\* Revaluation year

Source: County tax departments

ORANGE WATER AND SEWER AUTHORITY  
**Town of Chapel Hill, NC Demographic and Economic Statistics**  
 Last Ten Fiscal Years  
 (Unaudited)

<u>Year</u>	<u>Population (1)</u>	<u>Personal Income (in thousands)(2)</u>	<u>Per Capita Personal Income (3)</u>	<u>Median Age (3)</u>	<u>Education Level in Years of Schooling (4)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate % (5)</u>
2000	46,019	\$ 3,327,229	\$ 24,133	24.8	14.72	33,520	1.2
2001	48,902	3,583,041	24,133	24.8	14.72	34,462	1.8
2002	50,542	3,800,280	32,126	24.0	15.82	34,628	3.1
2003	51,005	3,877,363	33,125	24.2	15.82	37,012	4.0
2004	51,485	3,902,027	33,211	24.2	15.82	37,587	3.0
2005	51,519	4,122,336	37,121	24.2	15.82	37,308	4.0
2006	52,397	4,667,922	38,629	24.2	15.82	35,260	3.9
2007	53,416	5,060,894	41,435	24.2	15.82	38,718	2.9
2008	54,903	5,060,894	41,435	24.2	15.82	39,864	4.0
2009	55,616	5,450,187	43,844	24.2	15.82	40,316	4.7

\* Data not yet available

Notes:

- (1) N.C. State Data Center. Estimates are as of beginning of fiscal year.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis data available for Orange County only. Prior calendar year data used.
- (3) U.S. Department of Commerce, most recent available census data.
- (4) Chapel Hill-Carrboro Public Schools and University of North Carolina at Chapel Hill.
- (5) N.C. Employment Security Commission.

ORANGE WATER AND SEWER AUTHORITY  
**Miscellaneous Statistical Data**  
 Year Ended June 30, 2009  
 (Unaudited)

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Year Founded and Incorporated	1975
Size of Service Area:	
Square Miles	31
Miles of Water Pipe	415
Miles of Wastewater Collection Pipe	335
Customer Accounts	20,137
Budgeted Employee Positions	138
Water Treatment Plant Capacity (in MGD):	
Capacity	20.0
Production Average, FY 2008 - 2009	8.2
Production Peak, FY 2008 - 2009	13.5
Wastewater Treatment Plant Capacity (in MGD):	
Capacity	14.5
Average Daily Flow, FY 2008 - 2009	7.4
Peak Day Flow, FY 2008 - 2009	14.4
Number of Water Supply Resources	3
Total Capacity of Water Supply Resources:	
Cane Creek Reservoir (Billions of Gallons)	3
University Lake (Millions of Gallons)	450
Quarry Reservoir (Millions of Gallons)	200

Source: Orange Water and Sewer Authority Records

ORANGE WATER AND SEWER AUTHORITY  
**Full Time Equivalents**  
 Last Seven Fiscal Years  
 (Unaudited)

Department	2009	2008	2007	2006	2005	2004	2003
<b>General and Administrative</b>							
Office of the Executive Director	7	9	9	9	9	9	8
Engineering	13.5	15	15	15	15	15	15
Human Resources	3.5	6	6	6	6	6	6
Finance	6.34	7	7	7	7	7	7
Purchasing	1.33	2	2	2	2	2	2
Business Information Services	4	4	4	4	4	4	4
<b>Operations</b>							
Customer Service	7.33	8	8	13	13	13	13
Water Supply and Treatment	13.5	13	13	13	13	13	13
Water Distribution	32	32	32	27	27	27	27
Plants Maintenance	13	14	15	15	15	15	15
Laboratory	8	10	10	10	10	10	9
Wastewater Treatment	13.5	15	14	14	14	14	14
Sewer Collection	15	15	15	15	15	15	15
<b>Total FTE's</b>	<u>138</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>148</u>

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

Source: Orange Water and Sewer Authority's Human Resource Department



**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

The Board of Directors  
Orange Water and Sewer Authority  
Carrboro, North Carolina

We have audited the accompanying financial statements of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 09-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not believe that the significant deficiency described above is a material weakness.

### **Compliance and Other Matters**

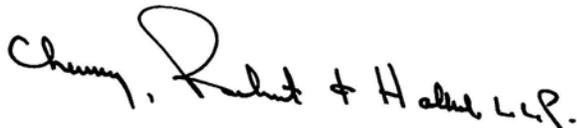
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Authority in a separate letter dated September 4, 2009.

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." in a cursive, slightly slanted script.

Raleigh, North Carolina  
September 4, 2009



**Independent Auditors' Report On Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act**

The Board of Directors  
Orange Water and Sewer Authority  
Carrboro, North Carolina

**Compliance**

We have audited the compliance of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 2009. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

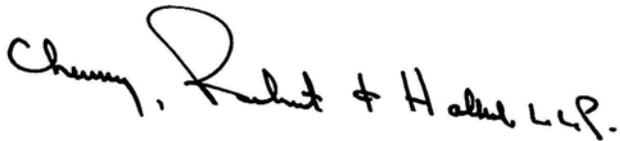
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." in a cursive, flowing script.

Raleigh, North Carolina  
September 4, 2009



**Independent Auditors' Report on Compliance With Requirements  
Applicable to Each Major State Program And Internal Control  
Over Compliance In Accordance With Applicable Sections of OMB Circular A-133  
and the State Single Audit Implementation Act**

The Board of Directors  
Orange Water and Sewer Authority  
Carrboro, North Carolina

### **Compliance**

We have audited the compliance of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2009. The Authority's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major State program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2009.

### **Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

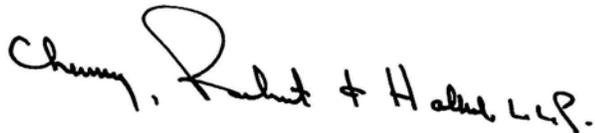
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." in a cursive, slightly slanted script.

Raleigh, North Carolina  
September 4, 2009

ORANGE WATER AND SEWER AUTHORITY  
**Schedule of Findings and Questioned Costs**  
 Year Ended June 30, 2009

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**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses  yes  none reported

Noncompliance material to financial statements noted  yes  no

Federal Awards

Internal control over major federal programs:

- Material weakness identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses  yes  none reported

Type of auditors' report issued on compliance for major Federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133  yes  no

Identification of major federal programs:

CFDA#	Program Name
66.202	EPA Congressionally Mandated Projects

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee?  yes  no



ORANGE WATER AND SEWER AUTHORITY  
**Schedule of Expenditures of Federal and State Awards**  
Year Ended June 30, 2009

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
<b>Federal Grants:</b>				
Cash Programs:				
Environmental Protection Agency				
EPA Congressionally Mandated Projects	66.202		\$ 524,049	\$ -
Total assistance - federal programs			<u>524,049</u>	<u>-</u>
<b>State Grants:</b>				
Cash Assistance:				
Passed through N.C. Department of Environment and Natural Resources				
N.C. Clean Water Management Trust Fund				
Grant #2006B-027		DENR-4	-	1,053,000
Total assistance - State programs			<u>-</u>	<u>1,053,000</u>
Total assistance			<u>\$ 524,049</u>	<u>\$ 1,053,000</u>

**Note to Schedule of Expenditures of Federal and State Awards**

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Authority and is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the State Single Audit Implementation Act.

ORANGE WATER AND SEWER AUTHORITY  
**Corrective Action Plan**  
Year Ended June 30, 2009

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**Section II - Financial Statement Findings**

Finding #: 09-01

Name of contact person: Kevin Ray, Director of Finance and Customer Service

Corrective Action Plan: The adjustment related to the accrual of liabilities resulted from a calculation error. An adjustment for these liabilities had been made prior to the year-end audit but for an incorrect amount. Management will ensure a secondary review of the accrual entries in the future.

The required classification of net assets arose from management's practice of recording contributions in aid of construction directly to equity accounts and appropriately reflecting them as income for reporting purposes. Management will record these entries as a form of income and close to equity after the audit in future years.

The adjustment to capitalize interest resulted from management's misinterpretation of FASB No. 34. Management has reviewed the text of FASB No. 34 and will apply the correct interpretation in future years.

The adjustment related to depreciation expense reflects advice received from past auditors concerning the timing of the recording of transfers from construction in progress to plant, property and equipment. Management will record such transfers for substantially complete projects in the future regardless of remaining potential expenses for assets in service.

Proposed Completion Date: Immediately

**Section III - Findings and Questioned Costs for Federal Awards**

None Reported

**Section IV - Findings and Questioned Costs for State Awards**

None Reported

ORANGE WATER AND SEWER AUTHORITY  
**Summary Schedule of Prior Audit Findings**  
Year Ended June 30, 2009

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**Section II – Financial Statement Findings**

**Finding: 08-01**

Status: Not corrected; see finding 09-01 in the current year.

**Finding: 08-02**

Status: Corrected

**Finding: 08-03**

Status: Corrected

**Finding 08-04**

Status: Corrected



## **Independent Auditors' Report on Compliance with Bond Covenants**

The Board of Directors  
Orange Water and Sewer Authority  
Carrboro, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 4, 2009.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions, or conditions of Section 7.04 contained in the amended and restated bond order, dated September 13, 2001 with the Bank of New York and the North Carolina Local Government Commission, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, the Bank of New York and the North Carolina Local Government Commission and is not intended to be and should not be used by anyone other than these specified parties.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

A handwritten signature in black ink that reads "Cherry, Bekaert &amp; Holland L.L.P." in a cursive script.

Raleigh, North Carolina  
September 4, 2009